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DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS?

(Part 1)

ORIGINAL

#118

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON

GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS

FIRST SESSION

JULY 15; SEPTEMBER 27; AND NOVEMBER 15, 1985

Printed for the use of the Committee on Government Operations

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I

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[1] Resigned from committee October 10, 1985.
[2] Appointed to committee October 10, 1985.

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DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS?

(Part 1)

MONDAY, JULY 15, 1985

House of Representatives,
Government Information, Justice,
and Agriculture Subcommittee
of the Committee on Government Operations,
Washington, DC.

The subcommittee met, pursuant to notice, at 1:08 p.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English and Jim Lightfoot.

Also present: Representative Mike Synar.

Staff present: William T. Cherry, professional staff member; Euphon Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

Background

OPENING STATEMENT OF CHAIRMAN ENGLISH

Mr. English. The committee will come to order.

Four months ago, more than a dozen farmers sat before this subcommittee and told us of the financial plight that they and their neighbors were facing.

In the weeks before that March 5 hearing, the news media had been filled with information about the credit crisis. But like so many things, this subject began to fade from public view, and soon the report was published that the crisis was not as bad as it had been painted.

The report indicated that only 5 or 6 percent of the Nation's farmers failed to get financing for this year's crop instead of the 12 to 15 percent that had been predicted.

Last week, the Iowa delegation notified Members of Congress that a farm crisis group would be in Washington this week, in fact I see that they are here this afternoon, to help remind us that the farm crisis is not over. And careful reading of the news reports will confirm that the credit crisis is continuing, it is just that the headlines are not as large as they were last winter.

For instance, as of last Friday, 55 banks have failed this year, and 30 of them were agricultural banks. For instance, last Thursday and Friday representatives of the 12 Farm Credit Districts met to plan what must be done to help the Omaha district meet its financial dilemma.

For instance, Under Secretary of Agriculture Frank Naylor called agriculture-related financial institutions together last Thursday and Friday to explore credit problems. It does not make sense to believe that the 1985 farm credit crisis sprang up out of nowhere back in January, or that it will silently steal away in the next few months.

It may well be that conditions exist in today's financial world that will cause agriculture to suffer until those conditions change. Or it may well be that the financial world has changed, but that the organizations have not adjusted to those changes in the correct way.

I do not know if either of those statements matches reality, but this subcommittee intends to look carefully to see what reality is.

Over the next several months, we will hear from many different sources to help us deal with this very complex and serious subject. Today's hearing will help us gain understanding from a historical perspective, but we will also deal with current events.

I want to welcome the members of the other Government Operations subcommittees who will join us this afternoon and members of the Agriculture Committee who also will be joining us as their schedules permit.

With that, I would like to recognize Mr. Lightfoot for any statement that he would like to make. I would also like to point out that Mr. Lightfoot has given a good deal of work, and effort, and attention to this matter, and we will be looking forward to his evaluation. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman. You know, the preponderance of accolades that float around this place, I think, are surpassed only by the hundreds of Grammys, Tonys and Oscars that the entertainment business hands out in wholesale proportions.

But, Mr. Chairman, I want you to know that I cannot be more sincere in thanking you for calling this series of hearings on farm credit at this particular time.

Farm credit comes from several different sources: Commercial banks; the Farm Credit System; and the Farmers Home Administration.

Farmers need all these institutions to fulfill their various needs, particularly considering the precarious turning point in my part of the country.

The farm sector of our Nation's economy has not shared in the general economic recovery that the Nation has enjoyed.

In the farmers' time of trouble, it is fair to ask whether the Farm Credit System is continuing to fulfill their needs.

This subcommittee is a particularly appropriate forum in which to make such inquiries. The Government Operations Committee has for many years provided a forum for review of problems that cross jurisdictional lines and which do not necessarily lend themselves to a legislative solution.

My staff and I have worked long hours helping farmers to finance their spring planting season. And, as a result of our efforts and others, over one-third of the Farmers Home Administration money that came into the State of Iowa has been placed in my district, and also exemplifies the problem there.

We are now faced with another dilemma in the Farm Credit System due in part to the tremendous write-down of land values, drought, floods, and the general economic situation.

Many farmers are faced with being unable to meet PCA and Federal land bank payments in full.

Following a series of town meetings in May in which a panel of experts from the Farm Credit System, the Farmers Home Administration, and the Iowa Bankers Association appeared to answer questions, there was a deluge of complaints and concerns about the actions of the Farm Credit System. I held more town meetings in July, and they filled the meeting halls. The concern among farmers that they were losing control of their property and were systematically being forced out caused me to call for congressional investigation into the Farm Credit System in addition to a GAO audit, which I joined several of my colleagues, including Mrs. Smith, who is with us today, in asking for at an earlier date.

Unfortunately, there are some who manage the Farm Credit System who would prefer that we keep our noses out of their business.

I have made several inquiries on behalf of farmers in my area about changes that are contemplated in the Farm Credit System and received the response on Saturday. That response came from the head of one Farm Credit District and can be summed up in two words: Butt out.

I do not want to be just a loose cannon about this. I want to be supportive of efforts to improve the Farm Credit System standing. By the same token telling me to butt out does not allow me to do the best representation job for constituents in my district. I appreciate the sensitivity of the matters with which you are dealing. But, I do think that these institutions in which we have placed so much trust for the preservation of the farm economy should be subject to scrutiny as to their stewardship of that trust.

Mr. Chairman, the condition is rapidly reaching a critical state. I fear there are those who are using the very complexity of the situation as a screen for poor judgment, bad loan decisions, and other activities that are working to the disadvantage of the American farmer.

These hearings are designed to provide a well-organized, reasoned, dispassionate review of farm credit in the United States. Farmers have every right to expect that we conduct our oversight, and we have a responsibility to do it.

From my experience over the last few months, I am getting the impression from the Farm Credit System officials that they are losing sight of the original intent of the System and are more concerned with saving the System rather than the farm borrowers it serves.

Mr. Chairman, thank you again, for commencing these hearings. I hope that we will get a clear picture of the overall farm credit situation, so that we can move on to specific problem areas.

Mr. ENGLISH. Thank you very much, Mr. Lightfoot.

I appreciate that—a very fine statement.

Today, we lead off with three Members. Our first witness is Hon. Virginia Smith, who is the Congresswoman from Nebraska, and one who has long been a champion of the farmers and for agriculture in general.

Virginia, we are delighted to have you with us here today, and we will be happy to hear your statement.

STATEMENT OF HON. VIRGINIA SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mrs. **Smith**. Thank you, Mr. Chairman, and Mr. Lightfoot.

I would like to put my statement in the record, but I will just talk off the cuff.

And let me say that I am not being perfunctory when I say how deeply we appreciate you having these hearings. I think this is one of the most serious problems, maybe the most serious problem we face out across the Midwest; and, as you said, Mr. Chairman, we want to face reality and find out what the facts are.

So, I think that these hearings are extremely important.

I just returned late last night from a long weekend out in the district, and let me tell you, Mr. English and Mr. Lightfoot, the topic of conversation was not the 26 prairie fires that had been burning in my district out across this weekend; the topic was not the fact that we are having the worst drought in northern Nebraska that we have had in 80 years.

It was not the big swath of hail that spread across our district. It was not the fact that we have got more grasshoppers than we have had in 30 years.

It was not the fact that beef cattle are below $56 and feed is below $3. The big issue was the Federal land bank. What about the fact that they had raised our interest to 13.5 percent?

What about the fact that they are going to further erode local control?

You know, the Federal land bank was young when I went as a teenaged bride to western Nebraska, and we borrowed from the Federal land bank, and we have gotten along much better than we would have if we had not had the Federal land bank.

In all of these years I have never heard any question or any doubts about the Federal land bank until this year. Now, I am hearing it on every side.

I hear the dissatisfaction more than I hear dissatisfaction about any of the other very tough issues we face; and I want to point out to you gentlemen that that sad Friday about a month ago when seven banks went broke in this country, four of them were in my congressional district.

So, we are in a tough spot out there.

You know, the folks out there are saying: "Where do we turn to get some help on this?"

Now, we have been hearing a lot about the fact that we have made a step ahead toward getting $435 million of bailout money through the Farm Credit System.

But my understanding is that the $240 million of that will go to their Capital Credit Corporation that they have set up to take over bad loans. Now, this entity does not want to keep bad loans. I am fearful that we will just have more foreclosures as a result of this, and then I understand that another provision in the bailout is that they must cut their local credit associations and local banks by about half.

Now, you know the problem that people are coming to me with constantly out there is that already the local associations have had so much power taken away from them that they do not have very much power.

In fact, some people came to me up in O'Neill where those two PCA's closed just a few months ago in that one area, and they said: "We got a letter from the Federal land bank. They are going to foreclose on us next month. Where do we go for help?"

And I said, "Go and talk to your local board."

But they say the local board doesn't have any power. Go and talk to our good friend not very far from you who is a member of the National Federal Land Bank Board. He doesn't have any power any more. Where do we go?

If we had borrowed from the local bank, we could have talked it over with the bank, and tried to figure it out.

Now, if we are going to cut out these local boards—and I am all for saving money, as you know, Mr. Chairman, but local control is also very important. This has been a cooperative, locally controlled, and it bothers me that this is the same agency that this year spent $272,000 on a big advertising campaign to tell the borrower that the land bank will go the second mile with them.

Well, you know, they went the second mile the first of July when they put an additional three-quarters of a percent interest on the 20,000 borrowers that are out there in Nebraska, 53 percent of all the bank loaning on land is through the Federal land bank in my district.

This is going to cost us $12 million in additional interest. I have been trying in every way I could to help with this problem. I certainly oppose this rate increase. I called a meeting of the Members of Congress, as Mr. Lightfoot so well knows, on June 4.

On June 7, our Republican Task Force had a meeting to try to deal with the situation. On June 12, I had a 45-minute meeting with Paul Volcker.

Paul Volcker said some very interesting things. He recognizes that this is an issue of national importance. He said that there is a point at which raising interest rates becomes counterproductive, and I am very fearful that already the Federal land bank is at that point, because every county I go to, I hear reports about how they have gone away from the Federal land bank, and they have gotten their loan from the local banker or from Travelers or from Shearson or from somebody else.

And, of course, when the best borrowers—and those are the only ones that can do it, they are getting lower rates of interest—when they do it, you leave the other borrowers who are in a less viable situation for a portfolio of loans for the Federal land bank, and they are in a worse situation on account of that.

Now, on top of this, I am also hearing that they are not going t charge the best borrowers a full 13.5 percent, and I wonder hov that will work out.

You know, this is supposed to be a cooperative, that is treating everybody equally. I think Congress needs to be thinking about that.

Paul Volcker also pointed out that he felt the Farm Credit System should have been making more use of the Farmers Home Administration debt restructuring program through the PCA's.

But it seems that the PCA's—those in our area, anyway—now prefer to foreclose rather than do the paperwork of going through the Farmers Home Administration restructuring program.

Well, as I think we all know, we had a Republican meeting again on June 17, and I was appointed one of five members to try to come up with some legislative proposals.

I know Mr. Evans is here, and he is going to testify, and he will talk more about one of these proposals of which I am a cosponsor that originated with him; but one of the proposals is to try to reduce the capital requirements of the Farm Credit Banks by as much as 50 percent over a temporary period of time.

And they are forced now by law to capitalize at 10 percent whereas I understand the average commercial bank capitalizes at only 5.5 percent.

But just let me say to you that I am so glad you are having these hearings because I do think Congress must step in at an early date and do something to bail out this System, which is very important to us, and we are really all in it together; so, thank you very much.

Mr. ENGLISH. Thank you very much, Virginia.

[The prepared statement of Mrs. Smith follows:]

HONORABLE VIRGINIA SMITH
STATEMENT BEFORE THE HOUSE GOVERNMENT OPERATIONS COMMITTEE
SUBCOMMITTEE ON GOVERNMENT INFORMATION,JUSTICE, AND AGRICULTURE
JULY 15, 1985

Thank you Mr. English and Mr. Lightfoot. The issue of farm credit,and particularly the Farm Credit System, is the number one issue in my district and so I am delighted to have the opportunity to appear before your committee today.

I have just returned from the Sandhills of Nebraska. Everywhere I went people asked what can be done to address the severe problems of the Federal Land Banks and Production Credit Associations. Long-time respected ranchers and farmers are being told by the Federal Land Bank they will be liquidated and they feel they have no where to turn. Their local associations seem to have little power and are being asked to give up what control they retain.

Just today it was revealed that the Omaha Farm Credit District is seeking $435 million in assistance from the rest of the Farm Credit System. This is somewhat lower than earlier estimates, and some experts maintain that $650 million to $700 million will be required.

Included in the bailout package is $240 million for the Farm Credit Capital Corporation to buy bad loans from the Omaha District. Tragically, the more money that is made available to the Capital Corporation, the more loans that will likely be liquidated.

Another provision of the bailout plan--and a disturbing one--is that the Omaha Farm Credit District (Nebraska, Iowa, South Dakota, and

Wyoming) will be forced to eliminate half of the local credit associations and banks and form a central bank in Omaha.

This action, proposed in the name of cost-saving, will further deplete local control and move the system toward the nation-wide "central entity" favored by the Farm Credit Administration. I am all for cutting costs, but local control has value beyond dollars. Eliminating local boards of directors will save little money in a $70 billion system. This same system reportedly spent $272,000 on an advertisement campaign that told borrowers how sound the system was and how the Federal Land Bank would go the extra mile with them.

On July 1, they went the "extra mile". Nebraska's principal agricultural lender hit its 20,000 farmers and ranchers in the state with another interest rate increase. The Federal Land Bank of Omaha raised its variable interest rate on farm real estate loans to 13.5 percent, costing Nebraska borrowers another $12 million annually in interest.

I oppose this increase--just as I opposed the 1 percent boost that occurred on September 1, 1984. I think this latest increase is counterproductive and may induce more than 10 percent of the Land Bank's best customers to seek lower rates elsewhere.

In order to explore alternatives to this rate increase, I called an emergency meeting on June 4 of the congressional delegations of the four states in the Omaha Farm Credit District. Following this, on June 7, Members of Congress from the four-state Omaha Farm Credit

District joined me in asking the General Accounting Office to expedite an investigation of the Farm Credit System.

On June 12, I met with Federal Reserve Board Chairman Paul Volcker and received assurance that the Farm Credit System's viability is considered of national importance. The Chairman agreed that raising interest rates was limited in its effectiveness; interest rates should be coming down. He added that at some point higher interest rates make your loan portfolio worse, not better. He also said the Farm Credit System should make greater use of the Farmers Home Administration's loan guarantee program. The PCAs could have used this program, but apparently would rather foreclose on farmers than do the paper work for a guarantee.

On the positive side, the Federal Land Bank is well capitalized, and the Federal Land Bank will be retiring large amounts of high-cost bonds this year and replacing them with much less expensive funding. The prime interest rate is now at its lowest level in about seven years.

I am committed to ensuring that the Farm Credit System fulfills its congressional directive of providing credit at the lowest possible cost consistent with sound business practices. On June 17, a special Republican Farm Credit Task Force met at my request with Farm Credit Governor Wilkinson to discuss two new alternative plans for holding down interest rates. A five-member group was selected to explore legislative solutions and on June 27, this task force discussed proposals for increasing available capital to the Farm Credit System.

As a member of this legislative task force, I joined as an original cosponsor of two bills by Congressman Evans and Bereuter designed to reduce the capital requirements for Farm Credit Banks by as much as 50 percent on a temporary basis, and to authorize the Farm Credit Administration to issue net worth certificates to recapitalize the Farm Credit System and enable the Farm Credit Banks to lower interest rates. It is my hope that these bills, HR 2925 and HR 2926, or other legislation can be quickly enacted so that interest rates can come down by summer's end, unnecessary foreclosures can be avoided, and local control of the Farm Credit System will be maintained.

I am confident that the Farm Credit System will remain a viable agricultural lender, and I pledge my full effort to do all that is possible to keep the system locally controlled and financially strong.

Mr. ENGLISH. I wholeheartedly agree. I might point out early on, so people will have a little bit of understanding of some of my background, particularly as far as the Federal land bank is concerned, my father was manager of the local Federal land bank for 35 years. He started back in the depression, and completed his service in 1975. He has been a member of the local board of directors since that time, and the observation that you are making, he would agree with wholeheartedly.

I was very disturbed by one of the points that you made of O'Neill. My father was most proud of the fact that during that 35 years he never foreclosed on a farmer. He would always manage to work it out with the farmer, and I think that is something that the Federal land bank is noted for, back during that period of time.

Many times it is said that they did nothing more than to pay a little something on interest. The farmer was not in a position to pay anything on principal, and one of the questions that I have is what happened to that policy.

I wish we would try to work with the farmers. At least the Federal land bank should keep ahead of the costs.

Second, local control has been eroded. I understand the proposal prepared by Mr. Perry may be a forerunner for the rest of the country. One issue is the question of local control; does the local board have any authority any longer; do they have any say?

One of the policies in the past has been the concept that it was a cooperative and it would be made up of local borrowers who would elect local people to be their board members. The board would have some say over whether a loan should or should not be made, and they understood the farmer and understood the farming practices. And we've been pulling away from that idea in the last few years, as far as the Federal land bank is concerned. We question whether that's wise.

Is that, in fact, completely changing the nature of the Federal land bank? I would agree with Mr. Volcker about raising interest rates. It would seem that that would be counterproductive to a lot of farmers. It simply drives out those farmers who can find credit from somebody else. They can get it at a lesser rate, they're going to go there. And of course, then, that puts the entire System in jeopardy.

So you made a number of excellent points, and I just wanted to underscore those facts as you laid them out.

Mrs. Smith. I appreciate that very much, Mr. Chairman, and I appreciate knowing that your father is a director, and that he feels as directors of my district who keep calling me and saying, "We don't have any power anymore."

Mr. English. That's exactly right. That's exactly right. And that's the point that he made and a point that he strongly objects to.

Mr. Lightfoot.

Mr. Lightfoot. Thank you, Mr. Chairman.

Virginia, you mentioned that meeting on June 4?

Mrs. Smith. Yes.

Mr. Lightfoot. And the Farm Credit people were there.

I wrote a letter to Mr. Harling of Omaha June 21, after we'd had a couple of town meetings in which we had representatives from the Farmers Home Administration and the Iowa Bankers Association, and the Farm Credit Bank, there. And to be quite blunt, the people were very upset with the lack of answers they got from Mr. Dunn, who represented the Farm Credit Administration, the Farm Credit System. They thought he was beating around the bush and wouldn't answer and this and that and the other.

And shortly thereafter, talking with commercial lenders, it was made very clear that we started to see the good loans moving out of the Farm Credit System, at the point in time when the PCA stocks were frozen, and accelerated when the interest rates went up.

I think most any commercial lender will verify that. So, I had mentioned in my letter to Mr. Carling, that we were sensing a mass exodus from PCA and Federal land banks, and most borrowers that are solvent are getting credit elsewhere. I understand that several million dollars left one of the Iowa locations this past week.

And in his letter in response to that, which was handed to me at the end of the meeting, so that we couldn't discuss it, he responded:

> I'm sure you understand that in a $5.5. billion organization, that some associations regularly get paydowns of a couple of million dollars a week. The fact is, the paydowns are running less than we projected to date at this current rate.
>
> The other side of it is, we hate to see any paydowns, and those who pay off are often some very gilt-edged loans. The bigger point is, that you don't seem to understand, there was no alternative to moving the land bank loan rate to 13.5 percent. This was outlined for you at Congresswoman Smith's meeting on June 4th.

What was your impression of that meeting? Is that the only alternative they had?

Mrs. Smith. We were talking about different options at that meeting. We've been talking about different options ever since. One option would be to make it possible, through the Congress, which we may be able to do, whether or not to have the full 10 percent in reserve.

I don't think we were ever consulted about that option. I certainly have opposed it from the start and I opposed it when I met with the land bank people in Omaha. I've opposed it every opportunity I've had.

Mr. **Lightfoot**. I just wanted you to corroborate that point because this was my feeling as well.

Mrs. **Smith**. And you know it was made clear that the discount window of the Federal Reserve is also available and it has limited possibilities, but there are options. The interest was already too high, that the land bank was charging, and this has tried to defy the law of gravity when the prime rate goes down to 9.5 percent for the first time in 8 years.

And then here goes the Federal land bank raising their interest, and, of course, the best borrowers are leaving.

Mr. **Lightfoot**. I feel we tend to get conflicting information because in two of the letters, Mr. Harling says that the payoff on loans has been 3 percent of the Federal land bank loan volume, which is approximately $6 billion.

Now, I am just calculating that 3 percent of $6 billion is about $180 million, if I am figuring right; and Saturday, in response to a question asked Dean Raber: How much have the insurance companies contributed to keep from moving away, taking their land notes to the insurance companies?

He said: "Well, not as much as we thought; less than a third; more than we had hoped for, but not as we had thought, and the figure is right at $100 million."

Now, there is an $80 million discrepancy in there somewhere. And these were the kind of answers that we seem to get when we ask these sorts of questions; and that's why I asked you about his statement that they had explained to us and that was the only alternative that they had. I didn't read it.

Mrs. **Smith**. And that points out the value of your hearings, to try to get the full information about the whole issue. Thank you very much.

Mr. **English**. Thank you very much, Virginia.

We really appreciate it.

The next witness will be Cooper Evans. Cooper is a member of the House Agriculture Committee, and is recognized, I think, as being one of the foremost experts with regard to agriculture as far as Congress is concerned.

We are very happy to have you join us this morning, Cooper. We will be happy to hear your talk.

Cooper, before you start, I would like to say, Virginia, that without objection, your written testimony will be made a part of the record.

Cooper, do you have one?

Mr. **Evans**. Yes, Mr. Chairman, I do have one. I am just going to talk a few minutes from notes, but I do have a written statement, and I would like to have it included in the record.

Mr. **English**. Without objection.

STATEMENT OF HON. COOPER EVANS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. EVANS. And I will begin, Mr. Chairman, again, by complimenting you and your subcommittee for starting this new series of hearings.

I think it is most timely and appropriate, and certainly the general subject that you are having hearings on is something that the Congress is going to have to address in the next few months.

I would hope, Mr. Chairman, that in your hearings you will focus on defining the options for solutions rather than attempting to establish the blame, which is the natural tendency for all of us—trying to discover just why it is we face this dilemma.

I think if one looks at the history of it, one will find that there is plenty of blame to go around, including the U.S. Congress.

Let's go back to the days of the very first act, which had some obvious flaws, given the benefit of hindsight. For example, they made no provisions for a central reserve within the Farm Credit System, which, incidentally, is something that does exist for commercial banks, and savings and loans, and credit unions.

It's the absence of a reserve that leads to all the efforts to consolidate at the present time. I think the Congress was remiss in not providing for outside audits of the Farm Credit System, particularly down to the association level, so that these problems sort of sneaked up on Congress and the members of the Farm Credit System, as well.

And I think that needs to be addressed.

And then I would point to just one more example of congressional error in my judgment, and that was a change in very recent years, where we said to the Federal land banks, you can now loan 85 cents on the dollar of collateral, rather than the previous 70 cents or whatever it was, and that proved to be extremely poor timing on our part.

I would also point out that the Farm Credit System, by law, has 100 percent of its portfolio in agricultural loans, and as was mentioned earlier this afternoon, even commercial agricultural banks, which I believe are defined as institutions having more than 25 percent in agricultural loans, are having great difficulties, and so, given the nature of agriculture, if you're forced to have 100 percent of your loans in agricultural loans, you have a basic problem there regardless of the nature of your management.

I will not say that management is faultless because I think it is admitted and was widely advertised and proclaimed that, in the go go years of the late 1970's, the Farm Credit System set out to monopolize agricultural lending in this country, and engaged in extremely aggressive management practices.

I personally think they are somewhat to be blamed in more recent times, for not coming sooner to the Congress for help, because I think, ultimately, they're going to have to come to Congress for help, and it's much later than it should be to be seeking that kind of help.

And finally, I would say that a very significant amount of the blame focuses on the administration and that administration has been telling the Farm Credit System for some months "Don't ask for any help, until you do all of the things that you can do within your own system to solve your own problems," and those things that have been within their power to do, have not been helpful to individual farmers.

I think it's important that we come to understand all of this but that the emphasis should be on where do we go from here, rather than what has been done in the past or has not been done in the past.

As I mentioned, the Farm Credit System has been making strong efforts internally to try to solve its problems. It began by raising interest rates to compensate for losses, and that's a very natural thing, of course. Clearly, however, there are limits to where you can go with that particular tactic, and I think we have far passed the limits on that.

They have been freezing stock to prevent loss of capital in some of the institutions. I think to some extent, that is warranted too, but it is certainly counterproductive. They have been triggering loss share agreements which are provided for in the act, and are a standard part of the approach to such things, but this has caused great concern among those who do not have the losses who are being forced to pay for those losses.

They've been promoting a concept of merging and, as one who has studied that to some extent, I can truly understand that because that is about the only way, in the absence of a central reserve, they've got of bringing their reserves together to focus on the problem areas that they have. And it goes back, in my judgment, almost entirely to the fact that the act did not provide even the Governor with a pool of funds raised somehow from the System over a period of years, so that he could focus in on these institutions that are having great difficulty.

And so, unfortunately, all of these steps have gone beyond the point of meaningful return, and while they are helping the System, at least helping the System to survive, they're devastating to the stockholder borrowers, and as has been mentioned, the best are leaving the System and they're being actively courted by the commercial banks and by insurance companies. It's a wonderful opportunity for them to get some extra quality in the agricultural portfolios.

And finally I would say that in my part of the country, the actions taken internally are leading to a terrible loss of confidence in the Farm Credit System, and led my judgment and the judgment of many of my neighbors, that it will be at least a generation before that confidence is restored in the Farm Credit System, and people once again actively seek it out in order to get credit from that source.

So what I'm saying is, I think the administration and Congress must act, and they must act now, and we're at least 6 months too late, and I think that there are a lot of things that can be done. And I don't think that any one of the options that's available to Congress and the administration is in itself sufficient, and I'm not sure which of these options are good, but I want to mention several things that I think would be very very helpful, not by way of recommending any of them, but just to speak to the problem just a bit.

I know I'm taking a little more time than I probably should, Mr. Chairman, but I think it's important to do this, and I'll try to do it very, very briefly.

The first thing that would be very, very easy to do would be for the Farmers Home Administration to broaden its debt restructuring program to include land mortgages which it has declined to do. It declined to do that largely because of the tremendous cost exposure ultimately to the Government it would again be taking over under the restructuring program or guaranteeing all the questionable loans that are held in the Federal land bank system.

And that was a deliberate administrative decision made in connection with that program, and it would be very easy for the administration to reverse that decision if it wished to do so, and it would be extremely helpful.

A second proposal that is provided for in the act from the very first, is for the Farm Credit Administration to seek use of the revolving fund which now exists in the Treasury in an amount of some $200 million, more or less. That is available to them, and I'm under the impression—I may be wrong on this—it would require no appropriation by Congress. But that has some gross disadvantages in that in the first place, it is inadequate to the total need; $200 million is not going to begin to solve the problem. Second, it triggers some things that are not helpful to the Farm Credit System, including it brings into force something I believe that is called the Government Corporation Act, which imposes on the Farm Credit System, a set of untried restraints that have never been used in the history of that act.

And if that act itself were stricken from the books, it would make that money much more accessible.

Moving onto the things that are not existing at the present time, there's going to be a strong incentive in the Congress to try to seek cheap solutions to an expensive problem. As you know, Mr. Chairman, we're very reluctant around here this year to undertake new programs to make great appropriations and make commitments that add to the budget deficit at this time.

There are some essentially zero-cost solutions to the Federal Government, and one that has been mentioned here today is the fact that under the law, the capital requirements of the Farm Credit System are very, very high, compared to other financial institutions. Mr. Volcker came before a committee of the Congress last week, and said the Farm Credit System is very well capitalized.

Governor Wilkinson says this over and over again, the Farm Credit System is very well capitalized. That's true but that and 75 cents will get you a cup of coffee under the present law. And because the intermediate banks, for example, by law must have 10 percent of the capital, the average bank in this country has to have 5.5 percent.

In other words, the intermediate banks are out of business when they get down to 10 cents on the dollar. Savings and loans can get down to 1-cent unencumbered capital, I think, and continue to operate.

One proposal that might be given some thought, not as a solution to the problem but as a step to buy some time, is to give the Government the power to cut that capital requirement in half for a period of a year or two, and then to rebuild it over a period of 10 years back to the statutory limit. That wouldn't cost a dime and would buy some time.

Another thing that deserves to be looked at in some detail is the smoke-and-mirror-type solution that was used with the savings and loans a couple of years ago. They were faced with at least as serious a problem and instead of coming to the rescue with real dollars, what the Federal Government did in that instance, was to authorize the regulator of those savings and loans to issue pieces of paper called net worth certificates, which, for all purposes of law, served just the same as dollars in the capital account. Here's a piece of paper, and you now have so much additional capital in that savings and loan.

Unfortunately, they made no provision in that law, that we rushed through here, for the orderly retirement of those certificates. But that doesn't mean that the concept was necessarily irresponsible, and it can be expanded to do the same thing, and requiring those to be retired over a period of time and requiring certain collateral to be behind them, and that would not cost that much.

Third, we could change the act to require the Farm Credit System to establish a central reserve of money that is available to the Governor, which he can put in troubled associations, so that you don't have to consolidate all the proceeds in the district in order to get the reserve capital.

One way to do this is to make an initial apppropriation, and then to require the Farm Credit System to check off all of its new bond issues to a very modest extent on a continuing basis, until the Government is repaid and that central reserve is ultimately established at a level that is adequate to meet their needs in the future.

An additional solution, of course, is for us to do as they have in the home mortgage business and to establish an Aggie Mae that resembles a Fanny Mae, a secondary market for questionable mortgages. Now, how you structure an independent agency that gets its funds on Wall Street, and goes out as a principal duty to buy questionable mortgages, I'm not quite sure. But that has an advantage in that it also could provide some relief for commercial banks as well as for the Farm Credit System with capital letters.

Another option of some interest is the fact that one of the reasons—not the total reason—that the interest rates carried by the Farm Credit System are so high, is that, although it is getting new money in New York City at 7 and 8 percent, it's got a lot of paper that it sold several years ago at much, much, much higher rates that has not yet matured. And, if those could be gotten off the books in short order by some kind of interest subsidy or premium to permit the early buyback financed by the Federal Government, that would let them get new money at much lower rates than some of that paper that's outstanding now.

And, finally, I would point out, something that I think, in any event, we must do and this is the only firm recommendation that I'll make to your committee today. I think we've got to get the Federal land bank back in the fixed rate long-term mortgage business, and I think the way to do that is to authorize a special issue of Farm Credit System bonds. They'd have to be at least 20 years in duration, and that preferably were tax free and to say that that money could only be used for one thing, and that's for financing 20-year, fixed rate mortgages, once again.

Now that ought to get it, if you require that they can't mark it up more than 1 percent, and you say that can't be assessed for any of the other problems, that ought to be able to let them put up their 10-percent money for 20-year mortgages, and I think that that would be very helpful for a lot of refinancing need.

And I'm sorry to have talked so long, Mr. Chairman. I appreciate very much the opportunity to speak with you this afternoon. Thank you very much.

[The prepared statement of Mr. Evans, with attachment, follows:]

TESTIMONY OF
CONGRESSMAN COOPER EVANS
BEFORE THE SUBCOMMITTEE ON GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE OF THE HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

JULY 15, 1985

Mr. Chairman, there are many economic concerns facing both farm and non-farm rural America, but chief among those concerns in the Midwestern states is the exceedingly grave difficulty in which the Farm Credit System finds itself. No single issue is of more concern to the constituents in my 16 counties and I suspect the entire state of Iowa.

For this reason I am most pleased that you have opened the Congressional dialogue of this issue, Mr. Chairman, and I am most pleased to be here to present my views.

Faced with record loan losses for which there are insufficient capital reserves, the Farm Credit System has turned, not to the government, but to its farmer-borrowers for help, often with devasting effects on those least able to afford it. This strategy has meant higher interest rates for borrowers at a time when credit elsewhere is getting cheaper; it has meant at least a temporary loss of assets for borrower-stockholders in Production Credit Associations that have frozen their stocks; it has meant the liquidation of several PCAs and the consolidation of others, most often with regard to the survival of the institution but not the financial well-being of the farmers the system is intended to serve.

One detrimental result of all this, I fear, is the loss of confidence among farmers for the country's most important single agricultural lender, confidence that may not be restored for at least a generation.

The decision to freeze the stocks in several PCAs in the Omaha Farm Credit District, for example, has created an unprecedented "borrowers' run" on the system's institutions, at least for those able to cash in their loans and obtain credit elsewhere:

--- A Federal Land Bank in my North-eastern Iowa district has lost an estimated 100 farmer-borrowers in just the last few weeks as financially able producers have transferred their loans to commercial banks and insurance companies offering special refinancing packages to the most financially able borrowers.

--- One small commercial bank in my home county alone has refinanced nine Land Bank borrowers since the crops were planted this spring.

In short, the system's strategy is backfiring. It is losing its best customers, the very customers it needs, to maintain earnings and ultimately return to prosperity.

An additional land bank has seen nine farm loans paid off with a commercial banker in my home town now providing the financing.

Currently, when considering the needed stock purchases a farmer borrower must consider when purchasing land through Land Bank financing, the effective interest rate is 14 percent for all Land Banks served by the Omaha Farm Credit Banks.

For one of my leading livestock farmers who purchased an 80 acre farm three years ago, this new interest rate established July 1 was too great, so he went shopping for new credit. He found several sources at considerably better rates and terms. He selected one which provided him with credit at fixed rates for five years at 12 percent. This past week he told me that the difference between the Land Bank interest rate of 14 percent and his commerical bank interest rate of 12 percent means he will pay off the mortgage on his 80 acre farm in 20 years rather than 35 years making the same annual payment. Having a farm paid off 15 years earlier is a massive incentive and our farmers are flocking to get out of the Farm Credit institutions.

Such actions while totally understandable from a farmers point of view, are resulting in a Farm Credit System with its remaining borrowers unable to find other commercial sources of credit, without the high quality of borrowers which characterized its operations in the past many years.

The Federal Farm Credit System has served rural America very well in the past. That is no longer true due primarily to misguided Congressional policy decisions in past legislative efforts.

When Congress last visited in a serious way that section of the US Code dealing with this vital rural credit source, it failed to establish a mobil reserve which could be used to meet regional credit difficultues. Congress failed to give sufficient powers to the Governor of the Farm Credit Administration so he can move to meet unexpected needs. It failed to institute acceptable outside audit procedures such as the Nation's commercial banks experience so that difficulties could be spotted early. Congress failed to implement a system of loan classificiation for these loans so that good farmers would not be penalized by those not succeeding in making their payments on funds borrowed. Congress failed to recognize that the FCS is overcapitalized because capital requirements are far in excess of commercial banks.

As might be expected, I have been deeply involved with this situation for more than a year as interest rates continued up while farmers were unable to meet their payments. When farmers can't pay their bills, all who serve them suffer. As a leading professor at Iowa State University has said on many occasions, debt isn't forgiven or dismissed, it is merely transferred from one person to another.

As part of my many months of daily work on this issue, I have crafted several approaches to solving the needs of the Farm Credit System. None of these on their own can accomplish what's needed. Together, coupled with the best solutions from many others, we might be beginning to gather some of the pieces of what's needed to get this credit source on its feet once again in a manner which it has stood for so many years in service to rural America.

Problems are easy to cite but what we need to focus on are solutions. In an attempt to begin the discussion towards problem resolution, I introduced on March 7, H.R.-1463, to provide additional farm credit resources for the Farm Credit System. This legislation does not adequately address the credit needs of the FCS and, subsequently on May 23, I introduced H.R.-2609, the Farm

Credit System Central Reserve Act of 1985.

This is a far-reaching bill which, if approved, will establish a central reserve controlled by the Governor of the Farm Credit Administration. The proposal calls for a $5 billion appropriation for the new reserve. It should be noted that all federal funds eventually would be repaid by the system. Is $5 billion sufficient to restore the system to financial health? While no one knows for sure, others have estimated that the capital needs of the system could reach as high as $20 billion.

Additional features of this legislation would:

--- Require the FCA Governor to hold the reserve funds in Treasury bills or other liquid assets and to use them to assist troubled Farm Credit Banks and associations;

--- Require the FCA Governor to maintain the central reserve at six percent of the system's loan portfolio through a one-half percent levy on future bond sales. Member banks and associations may be required to make payments from their loss reserves to maintain the six percent requirements;

--- Permit the Governor to repay the Federal appropriation when the system returns to financial stability and changes the selection of the Governor to place his appointment and service at the discretion of the President while Federal funds remain in the reserve;

--- Federal Land Banks would limit their farm real estate loans to no more than 60 percent of a borrower's collateral, or 75 percent of the collateral when the loan is guaranteed;

--- Annual audits of each Farm Credit institution by outside independent certified public accountants would be required. Such audits must include adequacy of collateral, payment performance, and cash-flow requirements on each farm loan;

--- The General Accounting Office would be required to audit the Farm Credit System every three years and report the results of the audit to Congress;

--- An individual member bank or association would be prohibited from lending more than 10 percent of its total loan portfolio to a single borrower;

--- The power of the Farm Credit Administration to control the actions of its banks and associations would be considerably expanded to include giving FCA the power to issue cease and desist orders, remove officers and directors of member insititutions, assess civil penalties for violations of FCA regulations and to merge like institutions.

These are far-reaching powers, Mr. Chairman, but a close examination of the sources of problems for the Farm Credit System indicated to me that if these elements had been incorporated in the Farm Credit Act of 1971, many if not all the difficulties which lead to today's difficulties could have been prevented.

A major weakness of the system is the absence of any central reserve for responding quickly and effectively to financial emergencies. Existing reserves are owned and controlled by each Farm Credit insititution and are not available without the consent of all member banks and associations. The reserves today are generally held in non-liquid assets or are invested in farm loans which creates even further problems in dealing with credit emergencies.

This unwise practice results in the system needing to turn to its borrowers for new infusions of capital, putting added stress on farmers already financilly strapped. The borrowers are paying higher and higher interest rates, have lost long-established credit lines, and now cannot redeem their stock in many credit associations. Congress must step in quickly and provide some relief for these borrowers. This bill provides the basic tools needed to move in that direction. It incorporates for the Farm Credit System many of the same enforcement powers other financial institutions have found important to their sound operations. Farmers cannot be expected to remain members of a system which has no other source of funds than to charge higher interest rates when all other sources of credit are lowering their rates of interest.

Since that legislation has been introduced, I have developed an extensive and complex method of assisting the Farm Credit System to work its way out of financial trouble at no cost to the taxpayers and at the same time provide strong inventive for FCS to restructure problem loans rather than foreclose on farm borrowers.

The proposal is designed to stabilize land prices by assuring that the system's expanding inventory of repossessed farmland is temporarily held out of the re-sale market. This growing inventory of property also threatens to further depress land prices in the farm states in the event member banks and associations liquidate their land holdings in an already bearish real estate market.

Provisions of this plan include the creation of a new Farm Credit corporation that would purchase repossessed farmland from member banks or associations so they can postpone their losses and replenish their deteriorating capital accounts. It also provides a similiar mechanism for purchasing questionable mortgages to encourage the banks or associations to restructure their problem loans rather than foreclose on farm borrowers.

This concept, Mr. Chairman, is based on a program developed three years ago to shore up our Nation's troubled savings and loan associations. It would involve a complex transaction in which a newly created Farm Credit Capital Corporation would acquire farmland from the system's banks or associations with a mixture of cash and financial paper similiar to the "net worth certificates" used to stabilize the savings and loans.

In detail, a Farm Credit bank seeking to dispose of its repossessed land would receive cash representing 70 percent of the current appraised value of the property. The Corporation would raise the necessary cash through the sale of Farm Credit bonds to the financial markets, forgoing the need for federal funds.

In addition, the bank would receive financial paper covering the difference between the cash payment and the book value of the land carried on its accounts. This paper, in the form of a subordinated lien and a newly created "capital worth certificate", would be carried on the bank's books as an asset and capital.

The bank, in effect, could improve its financial condition by disposing of its non-performing land assets to a sister agency --the Capital Corporation -- for full payment, at least temporarily, rather than dump the property on a depressed real estate market.

The paper, however, would be depreciated at a rate of 6 percent per year to allow the bank to gradually absorb its losses. The true value of the paper would be determined later when the land is re-sold to individual farm buyers, providing a powerful incentive to hold the land off the market until prices have improved.

In the meantime, the corporation would lease the land to farmers.

A similar procedure would be followed when a bank agrees to sell a problem loan to the Capital Corporation for the purposes of restructuring the debt, except that the paper portion of the transaction would be depreciated at 3 percent rather than 6 percent per year.

The slower depreciation schedule would allow the bank twice as many years to write off its losses, a factor that could encourage the bank to restructure a problem loan rather than initiate foreclosure proceedings.

Under a debt restructuring agreement, the corporation would hold a new first mortgage with the borrower, based on 70 percent of the current appraised value of the land. The farm borrower would make regular payments to the corporation covering principal and interest.

The interest rate would be fixed at 1 percent above the cost of money used in the transaction, and the loan would be amortized over 20 years.

In addition, the borrower would make interest-only payments on the portion of the unpaid loan held by the bank for at least five years, with the principal written down by 3 percent per year. The agreement would give the farmer time to recover financially and ultimately refinance his debt.

I have given this concept a great deal of thought, Mr. Chairman, and would like to provide for the hearing record at this point, with your permission, a seven-page document I have produced which explains this concept in considerably more detail than I am certain the Committee wishes to engage in this afternoon.

To accomplish the purposes of this approach, I have drafted and introduced H.R.-2901, a bill to authorize the Farm Credit Administration Governor to provide capital worth certificates described in this concept. Conversations I have held recently with Governor Wilkinson indicate this authority is all he lacks to carry out this approach to non-government assistance.

I have introduced one additional bill, Mr. Chairman, relying on the counsel of members of the Federal Reserve System's Board of Governors. It is a commonly held view that the Farm Credit System is overcapitalized and my bill, H.R. 2899, permits the Governor of the Farm Credit System to reduce the capital requirements by up to one-half to free-up needed capital to meet other needs of the system.

There are many pieces to solving the ills of the Federal Farm Credit System. I have tried to outline some that I have developed in the hope that other methods might be forthcoming to meet the severe test of this badly needed system. We cannot permit the system to languish further in its difficulties. Congress needs to act soon, and I am please that you would hold this hearing permitting a discussion of the needs and solutions of the Farm Credit System.

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DEBT RESTRUCTURING IN THE FARM CREDIT SYSTEM

A Proposal by Rep. Evans of Iowa

General:

At the root of the financial problem of the Farm Credit System are the losses, realized or in prospect, suffered by the System due to defaults on loans made to farmers and agricultural cooperatives. The result has been a serious depletion of the capital accounts of the associations and banks making up the System.

The Farm Credit System is vigorously attempting to solve this problem by mobilizing its meager supply of liquid capital reserves and shifting these funds to the institutions in greatest trouble, by sharply raising interest rates charged its borrowers, and in some instances by refusing to redeem stock in the Farm Credit System held by borrowers who pay off loans.

This strategy being followed by the Farm Credit System is proving to be less than satisfactory for the following reasons:

1. The reserves that can be mobilized are probably inadequate.

2. Raising interest rates charged borrowers is difficult because:

    (a) farmers are already in great financial difficulty and

    (b) at the present time nearly all other lenders are reducing rates of interest.

3. The freezing of stock and the possibility that stock will not be redeemable at par value are causing Farm Credit System borrowers to seek credit elsewhere.

4. At a time when the attractiveness of the Farm Credit System as an agricultural lender is declining rapidly, commercial banks and insurance companies are vigorously attempting to woo away the System's best customers by offering these low-risk borrowers lower (and sometimes, fixed) interest rates without any requirement that a customer purchase stock or pay large front-end charges at the time a loan is granted. This could ultimately leave the Farm Credit System with only high risk borrowers.

A New Approach:

If the Farm Credit System is determined to do all it can to solve its problems internally and without financial assistance from Congress, a better way must be found. One proposal which would appear to avoid the need to raise rates and freeze stock, and which would allow the banks and associations an extended period of time to adjust to the losses in their capital accounts, is outlined in the remainder of this paper. It is based upon an improved version of the innovative but somewhat irresponsible "net worth certificate" program implemented to rescue insolvent savings and loan associations together with some of the better features of the Farmers Home Administration's debt restructuring program placed in effect more recently. Such a program would probably require minor changes in current law.

As described here, the proposal applies only to the Federal Land Banks and their Associations, but the general approach could be modified to fit the needs of Intermediate Credit Banks and the Banks for Cooperatives as well.

The first step in this proposal would be for the Governor of the Farm Credit System to provide for a special debt restructuring agent within the System to assume the principal responsibility for reacquired farmland and for the questionable mortgages now held by the Land Banks and Associations. The Farm Credit System Capital Corporation recently chartered by the Governor would seem reasonably well suited to this role. It has access to funds raised by the funding agency of the Farm Credit System, which is essential for debt restructuring. Therefore, for the purpose of this outline it is assumed the Capital Corporation would be the debt restructuring agent.

Foreclosed Property:

In addressing the problem of farmland reacquired by land banks and associations the proposal would function as follows:

1. The farmland would be appraised by independent agents, not a part of the Farm Credit System, to establish the most probable present value of the property in an immediate cash sale.

2. The Capital Corporation would then purchase the farmland from the bank or association and receive title. The Capital Corporation would pay for the property in the following manner:

a. Immediate transfer of funds equal to 70 percent of the appraised present value of the property, to the bank or association, and

b. Provide the bank or association a subordinated lien with a face value equal to the difference between the book value of the property as carried by the selling bank or association and the 70 percent of present sale value paid in cash. Terms of the lien would include appropriate subordination provisions to ensure compatibility with the remainder of this paper. Although the future value of this lien would be uncertain it would provide an asset to be carried on the books of the selling Land Bank or Association, pending determination of its true value over a period of time.

It should be noted that this action places the Capital Corporation in a well collateralized position and leaves most of the risk of eventual losses with the bank or association.

3. Concurrent with the sale of the farmland to the Capital Corporation, the Governor of the Farm Credit System would issue to the selling bank or association a Capital Worth Certificate equivalent in face value to the subordinated lien accepted by the seller as partial payment for the farmland, but subject to a gradual but manageable decline in value. This certificate would be carried on the books of the seller as capital, and would be so deemed for all purposes of the Farm Credit Act (this may require an Act of Congress). However, the certificate would be issued with the proviso that its book value would gradually be written off on the books of the bank or association at a rate of 6 percent a year until such time as its total face value had been absorbed as a loss or the true value of the subordinated lien (balancing the certificate on the books) had been established by

settlement and release of the subordinated lien, thereby establishing the true value of the Capital Certificate. The value of the subordinated lien as carried on the books of the Bank or Association also would be reduced by 6 percent per year to balance the corresponding annual reduction in the value of the Capital Worth Certificate. It should be noted that this action would not only postpone the loss but would in effect initially increase the amount in the capital account of the bank or association, thus reducing the pressure to increase interest rates or freeze stock.

4. During the time the Capital Corporation holds title to the farmland, management responsibility could be delegated to the bank or association holding the subordinated lien. The property would be leased to generate income, and the Capital Corporation would have first claim on that income up to an amount equal to a return on its investment of 1 percent above the average cost of money to the Capital Corporation. Any income in excess of this amount generated by the lease would be assigned to the bank or association as interest on the subordinated lien.

5. At some point all accounts related to such reacquired farmland would have to be finally settled. Final settlement would include sale of the farmland by the Capital Corporation. Because the value of the second lien and the capital worth certificate would be constantly declining on the books of the bank or association there would be a strong continuing incentive for that bank or association to attempt to find a buyer for the property at a price that equals or exceeds the sum of the book value to the Capital Corporation and the then current value of the second lien. The time of which such a sale occurs would depend on the market value of land and the judgment of the bank or association as to the direction land values would move in the future. At time of sale, the proceeds would be used to settle all accounts in the following order of priority: first, principal and interest due the Capital Corporation; second, principal due the bank or association up to the remaining book value of the second lien; third, any remainder to the bank or association which would treat this remainder as interest received on the second lien. In the event the proceeds of the sale were inadequate to cover principal owed the Capital Corporation or the bank or association the shortfall would be absorbed as a loss.

Mortgages of Questionable Value:

In addressing the problem of mortgage loans of questionable value which have not been foreclosed or abandoned, the proposal would function in a comparable manner, but the goal here would be to provide the bank or association an incentive to restructure the mortgage and continue to work with the borrower rather than foreclose. Restructuring could be done as follows:

1. The land would be appraised by independent agents to determine present value.

2. The Capital Corporation would purchase the mortgage on the land from the bank or association, and would pay for the mortgage as follows:

    a. Transfer funds equal to 70 percent of the appraised present value of the land, and also

    b. Provide the bank or association with a second mortgage on the land for the difference between the amount of funds paid and the book value to the bank or association of the mortgage being purchased by the capital corporation. The second mortgage would include additional terms of subordination in accordance with the provisions of the following subparagraphs,

3. In this case, as in the case of the purchase of foreclosed property, the Governor of the Farm Credit System would once again issue to the bank or association a Capital Worth Certificate equal in face value to the face value of the second mortgage. Once again the certificate would be considered as capital on the books of the bank or association, but would be written off at a rate of only 3 percent per year rather than at the 6 percent rate required of a similar certificate given in conjunction with purchase of foreclosed farmland. And correspondingly the Capital Worth Certificate would decline annually in value, in this case at 3 percent per year.

4. The land would remain with the borrower, subject to meeting the terms of the new first and second mortgages, and these terms would be structured to provide for a work-out. Basically the test of whether to foreclose and proceed under the option described earlier in this paper or to restructure would depend on the relative importance to the bank or association of two factors: The ability of the borrower to make annual payments at least as large as cash rent would earn on the property, and the importance the bank or association attaches to being able to write off its loss at only a 3 percent annual rate rather than at the 6 percent rate required under the foreclosure option. Payments would be allocated to the Capital Corporation and the bank or association in a somewhat different manner than under the foreclosure option. The first mortgage would provide for regular payments of principal and interest to the Capital Corporation with the interest rate limited to 1 percent over the cost of money to the Corporation and with an amortization period of 20 years. The second mortgage would require regular interest payments of 1 percent above the cost of money to the bank or association, and no payments on principal for a period of time mutually acceptable to the borrower and the bank or association but with a minimum period of deferral of principal of 5 years. It should be noted that the balance due from the borrower on the second mortgage would decline 3 percent each year as the bank or association writes down its Capital Certificate and second lien.

5. Final settlement of all accounts could occur in several ways, preferably by the borrower eventually paying off the restructured first and second mortgages, or by refinancing them in a more conventional manner, or by sale of the property to satisfy the mortgages. A less attractive settlement may of course be necessary, and one possibility is eventual foreclosure by the Capital Corporation and the bank or association followed by conversion of the account to the foreclosure proposal outlined earlier in this paper. In any event, funds recovered on the account would be applied to claims in the same order of priority outlined previously herein, namely: first, principal and interest due the Capital Corporation; second, interest due the bank or association; and third, principal due the bank or association up to the depreciated value of the second mortgage.

Advantages:

An approach generally along these lines appears to offer several advantages:

1. No expensive federal bail-out is required. This is important since the probability of obtaining an appropriation of substantial funds or an expansion of the currently implied guarantees of the Farm Credit System by the Federal Government is questionable at best.

2. The risks of financial loss to the Federal Government would not be significantly increased over and above risks now inherent in current implied Federal guarantees.

3. Troubled Farm Credit System institutions would be quickly and dramatically recapitalized by the Capial Worth Certificates, thereby reducing the need for those Institutions to further raise interest rates or freeze stock.

4. Troubled Farm Credit System institutions would be given a strong incentive to retain foreclosed property rather than place it on the market where it would further depress land prices, and to restructure mortgage loans to prevent borrowers from losing their land.

5. Institutions would be rewarded for restructuring rather than foreclosing.

6. Troubled institutions would also be granted an extended period of time in which to adjust their loan losses and adopt to the dramatic changes taking place in agriculture.

Mr. **English**. Not at all Cooper, we appreciate it very much, and I think you've given some excellent proposals, and I'm sure that many of these are going to be looked at and studied over the coming weeks and months.

I have no questions, and I certainly want to invite you to join us up here.

Are there any questions for Cooper?

[No response.]

Mr. **Evans**. Well, thank you very much. Unfortunately, I have another stop that I've got to make.

Mr. **English**. Well, if you get a chance, come on back by.

Mr. **Evans**. Thank you, much.

Mr. **English**. Thank you, Cooper.

Congressman Pat Williams is expected to testify here today. Has he gotten here yet? Not yet. All right, well whenever he gets here, we'll be happy to hear from him.

[The prepared statement of Mr. Williams follows:]

Mr. Chairman, members of the Government Operations subcommittee on Government Information, Justice and Agriculture.

I thank you, Mr Chairman for the opportunity to address your subcommittee on farm credit, a timely subject and matter of present peril to agriculture and our country. Some have characterized the current financial problems of agriculture as a major recession and others have simply called it a depression; it is without question the most severe crisis for agriculture since the thirties.

You, Mr. Chairman, have appropriately called on witnesses to review the history since the 1900s of the federal government's role in providing available and affordable agriculture financing. My concern today is focused on the liquidation of the Western Montana Production Credit Association of Missoula, Montana--in my district--as an example of the result of a failure of the Farm Credit Administration policies in general and failure to provide timely financial assistance to the Twelfth District in Spokane, in particular.

The information I have received indicates liquidation of the Missoula PCA would not have been necessary if the assistance package to the Twelfth District announced June 13, 1985 had been available several months earlier. The Farm Credit Administration must be held accountable for the lack of sufficient oversight to prevent the current epidemic of banks in trouble in their jurisdiction. The FCA must also be held accountable for the slow response to financial peril of the Twelfth district. The present structure of the Farm Credit Banks and organization of the Farm Credit Administration may well have prevented a timely response;

but a repeat of this disastrous situation must be prevented. I have focused my concern on the Missoula PCA because during the current drought and depressed prices for family farmers the PCA has been part of the problem rather than part of the solution. We must not let this tragic situation for families unable to continue third and fourth generation businesses be repeated.

If the federal government is to fulfill its proper role--in my opinion--of providing a floor for farm credit throughout the nation, it must change the law to provide participation by farm credit associations for mutual stability. During a drought in Montana farm credit costs can climb beyond an affordable level, and force farmers into bankruptcy. Likewise, a freeze in Florida can jeopardize continuation of affordable credit there, with similar results. These blows of nature are predictable but not siumultaneous. If the risks are spread throughout the nation, each farmer is better for the mutual assistance and the country is better for the system.

As a member of Congress representing Western Montana where agriculture is important to our economic well-being, I hope this Congress will insure that never again will we liquidate farm credit associations in areas of distress while more fortunate districts, at any particular time, are not asked or refuse to offer financial assistance.

I commend the chairman and this committee for this hearing, and I ask that they investigate a provision in farm credit law which would guarantee mutual support of the entire farm credit system in protecting against local collapse when the system remains viable.

Mr. **English**. The first noncongressional witness today will be Mr. Wayne Rasmussen, who is a historian with the U.S. Department of Agriculture.

Mr. Rasmussen, would you please come forward?

I want to welcome you here today, Mr. Rasmussen. I appreciate your coming over, and will be happy to receive your testimony.

If you would like to summarize your written testimony, please feel free to do so.

Mr. **Rasmussen**. Thank you.

Mr. **English**. Without objection, your complete written testimony will be made part of the record.

STATEMENT OF WAYNE D. RASMUSSEN, CHIEF, AGRICULTURAL HISTORY BRANCH, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Mr. **Rasmussen**. Thank you very much, Congressman English.

It is a real pleasure to be here with you and the other members of the subcommittee, Congressman Lightfoot and Congressman Synar.

First of all, I will take advantage of your offer. I have submitted the testimony, and I will summarize what I have here.

I had better since you have a lot of things to do this afternoon.

Throughout our colonial and national history, the frontier farmer found it difficult to secure credit. Money was usually scarce, prices low, and both interest rates and risks high.

The situation became acute after the Civil War. The western farmer was of necessity a commercial farmer, while many eastern farmers were making the change from subsistence to commercial farming.

The establishment of a commercial farm and its continued existence depended in many cases upon the availability of credit.

The southern farmer, too, was in need of money to reestablish or establish himself in the production of cotton.

Many farmers turned to what were regarded as radical movements—the Greenback movement, the Populist Party, or free silver as promising aid. But all failed in their attempts to get more money into circulation. Sensitive to the needs of the business community, the Government was indifferent to the farmers' financial problems.

The first governmental recognition of the farmers' credit needs came in 1908 when President Theodore Roosevelt's Country Life Commission called attention in its report to the lack of any adequate system of agricultural credit.

The Commission saw a formal Rural Credit Program as promoting rural life and welfare as well as serving to stabilize farm production.

Action on these proposals seemed assured when, at their 1912 conventions, the Republican, Democratic, and Progressive parties pledged themselves to better credit facilities for the farmer.

In the spring of 1913, President Wilson appointed an official U.S. Commission to cooperate with the American Commission on Agricultural Credit and Cooperation.

They issued their reports and legislation was proposed.

Action on legislation was delayed by the need to reconcile three opposing views. One plan called for the establishment of privately owned farm mortgage banks under the supervision of the Federal Government.

Another was for the organization of a system based on cooperative principles, while the third plan was for the Federal Government to make direct loans to farmers.

It was not until July 17, 1916, that the Federal Farm Loan Act was passed and signed by the President. The compromise act permitted the establishment of both privately owned and cooperative farm mortgage banks.

Congress provided the original capital for the Federal land banks with a provision for farmers to organize local associations.

As farmers obtained long-term mortgage loans from the land banks, they were to invest 5 percent of their loans in the capital stock of their local associations.

The local associations would, in turn, invest in the capital of the Federal land banks and gradually replace the Government-owned capital.

The Federal land banks, by making available amortized loans for periods as long as 20 to 40 years throughout the country, brought about fundamental changes in farm mortgage lending.

Up to that time, the average loan had been 2 to 3 years with very high interest rates, but now you had a way by which loans could be made for 30 to 40 years. Other lenders began to follow the land banks in this matter.

In 1923, Congress authorized the organization of the 12 Federal intermediate credit banks to work alongside the Federal land banks.

During the 1920's, the land banks and the intermediate credit banks would help a few farmers, but nevertheless farm prices continued down. This and continued high prices for what farmers had to buy helped drag the whole Nation into the Great Depression of 1929.

This led to the establishment of the Farm Credit Administration by Executive order on May 27, 1933. This was the first of a number of rapid actions taken by President Franklin D. Roosevelt and Congress to solve the desperate credit crisis which faced American farmers.

By 1933, farmers' income was approaching the vanishing point. The general depression had greatly curtailed the ability of the banks to sell bonds.

Other sources of credit dried up. Lenders were foreclosing mortgages by the thousands. Hundreds of thousands of other farmers were without credit and threatened with the loss of their farms.

Additional legislation was needed to enable the new Farm Credit Administration to meet the desperate needs for emergency credit.

Congress made provision for emergency credit by passing the Emergency Farm Mortgage Act of May 12, 1933. This act provided a $200 million fund to the land bank commissioner to make both first and second mortgage loans to refinance farmers' debts.

There were continuing additions to these funds. The Emergency Farm Mortgage Act of May 12 was followed by the Farm Credit Act of June 16, 1933. The Farm Credit Act provided for the establishment of local production credit associations to bring the services of Federal intermediate credit banks to farmers. It provided the original capital to organize these credit cooperatives, but arranged for farmers to gradually replace the Government-owned capital by investing in stock in proportion to the size of their loans.

The Farm Credit Act of June 1933 was followed by the Federal Farm Mortgage Act of January 31, 1934. This act used the land bank commissioner fund to capitalize a Federal Farm Mortgage Corporation to expand the money available for emergency financing.

The additional authority and funds enabled the Federal Land Banks on their own behalf and for the Federal Farm Mortgage Corporation to stem the tide of foreclosures, save the farms of hundreds of thousands of families, and incidentally help unfreeze the assets of country banks and insurance companies.

From May 1933 to the end of 1935, the land bank system on its own behalf and for the Federal Farm Mortgage Corporation made over 700,000 loans totaling nearly $2 billion.

By the end of 1935, the Federal land bank system, together with the Federal Farm Mortgage Corporation, held 48 percent of the total farm mortgage debt of the country.

The refinancing program cut farmers' interest bills by about $38 million a year.

In addition, many creditors, working with voluntary debt adjustment committees, agreed to scale down farmers' debts to them so farmers might be eligible for mortgage loans and thus enable creditors to get cash. These scaledowns totaled an estimated $200 million.

The programs of the Farm Credit Administration were a major factor in reducing the rate of foreclosures during the 1930's.

In 1934, there were 28 foreclosures per 1,000 farms mortgaged, while in 1936 the number had declined to 20.

While programs under the Farm Credit Administration were helping middle-class farmers, something more was needed for the poor.

A first step in this direction was taken with the establishment of the Resettlement Administration on April 30, 1935, as an independent agency headed by the Under Secretary of Agriculture.

The immediate objective of the program was the short-term relief of impoverished farm people. Major longer term goals included relocating those in the worst situations on new and more economic farms or in part-time farming communities where they could grow their own food and find jobs in new industries.

In 1937, the Resettlement Administration was transferred to the Department of Agriculture and became the Farm Security Administration.

The Bankhead-Jones Farm Tenant Act of July 22, 1937, provided authority for a tenant purchase program, with the Government loaning money at low interest rates to disadvantaged farm families so that they could buy land, and a rehabilitation loan program to pay farm operating and farm living expenses and provide technical guidance.

During the first year that the tenant purchase program was in effect, fewer than 2,000 of the 38,000 applicants received loans.

The Farmers Home Administration Act, approved August 14, 1946, combined the Farm Security Administration and the Emergency Crop and Feed Loan Division of the Farm Credit Administration.

The new organization was named the Farmers Home Administration.

The law authorized the Secretary to make production and subsistence loans to farmers who could not secure credit elsewhere. These loans were in lieu of the emergency crop, feed, and seed loans and the rural rehabilitation loans made previously.

The law provided for the liquidation of rural rehabilitation and resettlement projects and for the disposal of farm labor camps.

It continued the tenant-purchase program initiated under the Bankhead-Jones Act of 1937, and authorized a program of insured farm mortgages.

During the year ending June 30, 1948, over 250,000 families participated in the supervised loan programs of the Administration.

About half of these families were borrowers for the first time under these programs; the remainder were borrowers of previous years.

In its first 3 years, the Farmers Home Administration confined its operations to the development of supervised farm ownership and farm operating loans, and to water projects.

Beginning in 1949, the agency was charged with making loans to help farmers build or repair houses and other farm buildings.

In 1954, loan responsibilities under the Watershed Protection and Flood Prevention Act were also assigned to the Farmers Home Administration.

The Farmers Home Administration authorizations under various acts governing virtually all of its programs, except housing, were consolidated and expanded under the Consolidated Farmers Home Administration Act of 1961.

For a number of years the Farmers Home Administration was responsible for loans relating to rural development. In 1972, this responsibility was increased with passage of the Rural Development Act.

Although programs have changed from year to year, they have aided many rural communities throughout the United States.

In a sense, that gets us where we are today. and where we are today is in part a result of this historical development.

Although the Secretary of Agriculture has a representative on the Federal Farm Credit Board, the Farm Credit Administration is an independent agency.

Its banks and associations have paid off funds advanced in earlier years by the Federal Government, and loan funds provided borrowers are obtained primarily through the sale of securities to investors.

The system meets much of the credit needs of the commercial farmers of the Nation. In times of credit pressures, such as the late 1950's and the mid-1980's, its policies are generally conservative and protective of the interests of its members.

The Farmers Home Administration is responsible to the Secretary of Agriculture and is dependent upon Congress for yearly appropriations.

Congress appropriates the funding and establishes ceilings on the aggregate levels of loans permitted to be made or guaranteed out of the Administration's three revolving funds.

These funds are largely self-sustaining and require appropriated funds only to make up any losses incurred in previous years.

When there are pressures to reduce expenditures, which sometimes comes when credit needs are greatest, Farmers Home is often placed in a difficult position.

During the 1950's, for example, the agency was under pressure not to loan all of its funds, and administrative regulations were adopted that limited farmers access to Farmers Home Administration's supervised credit. Congress, however, appropriated more money for loans than the Administration requested and insisted that it be spent.

On the other hand, in the 1970's, the agency may have gone too far in making loans that would be difficult to repay.

Historically, periods of prosperity on the farm generally resulted when exports of farm products were high and farmers were producing enough to meet those demands. Wars have also led to farm prosperity.

Conversely, a sudden decline in foreign demand, particularly when combined with high production on American farms, has led to farm depression. Problems have also come about from crop failures for one reason or another, particularly widespread drought.

There is, as might be expected, a marked relationship between farm prosperity and depression and the value of farmland. During periods of prosperity farmers may overborrow, using their land as security.

Then, in periods of farm depression as land values fall, there is less to back up loans and pressures arise to make more loan funds available, to extend periods of payment, to negotiate forgiveness of some percentage of the loans, or to legislate moratoriums on foreclosures.

This is the situation in 1985.

Thank you very much.

Mr. English. Thank you very much, Mr. Rasmussen.

[The prepared statement of Mr. Rasmussen follows:]

Statement by Wayne D. Rasmussen
Chief, Agricultural History Branch, Economic Research Service
U.S. Department of Agriculture
Before the
House Subcommittee on Government Information,
Justice, and Agriculture
of the
Committee on Government Operations
July 15, 1985

Mr. Chairman, Members of the Subcommittee, I am pleased to be here today to discuss the historical background of the rural credit programs of the United States.

Throughout our colonial and national history the frontier farmer found it difficult to secure credit. Money was usually scarce, prices low, and both interest rates and risks high. The situation became acute after the Civil War. The Western farmer was of necessity a commercial farmer, while many Eastern farmers were making the change from subsistence to commercial farming. The establishment of a commercial farm and its continued existence depended in many cases upon the availability of credit. The Southern farmer, too, was in need of money to re-establish or establish himself in the production of cotton.

Farmers' needs were the more acute in that the federal government was aiding financial and business interests by reducing the amount of money per capita in circulation. Many farmers turned to the Greenback movement, the Populist party, or free silver as promising aid, but all failed in their attempts to get more money into circulation. Sensitive to the needs of the business community, the government was indifferent to the farmers' financial problems.

The first governmental recognition of the farmers' credit needs came in 1908 when President Theodore Roosevelt's Country Life Commission called attention in its report to the lack of any adequate system of agricultural credit. The commission commented upon the cooperative phases of mortgage credit and posed the entire problem as one needing solution. The Commission saw a formal rural credit program as promoting rural life and welfare as well as serving to stabilize farm production.

The National Monetary Commission, appointed by President Roosevelt in 1909 to study general banking conditions, presented a detailed account of the German rural credit system. The American Bankers' Association carried on further studies. In the spring of 1912, the Southern Commercial Congress persuaded David Lubin, founder of the International Institute of Agriculture, to discuss the problem at the annual meeting of the Congress. With Lubin's encouragement, the Congress appointed an unofficial American Commission on Agricultural Credit and Cooperation to visit Europe in 1913 and study different agricultural credit systems.

Meanwhile, early in 1912, President Taft asked American diplomatic representatives abroad to gather material on European systems for a report. This report was sent to the state governors in the fall of 1912. In his transmittal letter, the President outlined the problem and stated that the federal and state governments must assume responsibility for "economically and honestly conducted institutions."

Action seemed assured when, at their 1912 conventions, the Republican, Democratic, and Progressive parties pledged themselves to better credit facilities for the farmer. In the spring of 1913, President Wilson appointed an official United States Commission to cooperate with the American Commission on Agricultural Credit and Cooperation. The commissions issued their reports in the winter of 1913-1914, and legislation to effectuate their recommendations was introduced early in 1914.

Action on legislation was delayed by the need to reconcile three opposing views. One plan called for the establishment of privately owned farm mortgage banks under the supervision of the federal government. Another was for the organization of a system based on cooperative principles, while the third plan was for the federal government to make direct loans to farmers. It was not until July 17, 1916, that the Federal Farm Loan Act was passed and signed by the President. The compromise act permitted the establishment of both privately owned and cooperative farm mortgage banks.

Congress provided the original capital for the Federal land banks with a provision for farmers to organize local associations. As farmers obtained long-term mortgage loans from the land banks, they were to invest 5 percent of their loans in the capital stock of their local associations. The local associations would in turn invest in the capital of the Federal land banks and gradually replace the Government-owned capital. They were to operate at cost. The joint stock land banks were to be capitalized by private interests, and operate to make a profit for their stockholders. Both systems were empowered to sell bonds to the investing public to raise money for making loans to farmers.

The Federal land banks, by making available amortized loans for periods as long as 20 to 40 years throughout the country, brought about fundamental changes in farm mortgage lending. They eliminated the need for high interest rates and renewal fees every 3 to 5 years. Other lenders gradually began to follow suit in order to compete.

In 1923, Congress authorized the organization of the 12 Federal intermediate credit banks to work alongside the Federal land banks. These banks by discounting farmers' short-term notes were to provide funds for operating purposes. The banks were wholesalers of credit. Congress hoped commercial banks would use their services and that farmers would also organize local associations to serve as retailers of credit. The banks were also authorized to lend to farmers' marketing cooperatives on security of commodities in storage. Federal intermediate credit banks had only limited use up to 1933 because of the lack of retail outlets. Congress had authorized the Secretary of Agriculture to lend farmers the money to organize local agricultural credit corporations to use the facilities of the Federal intermediate credit banks. However, only a few were organized.

Starting as early as 1918, the Secretary of Agriculture had been authorized and funds had been provided, from time to time, to make emergency seed, crop, and feed loans. The authority to make such loans was transferred to the jurisdiction and control of the Farm Credit Administration.

Establishment of the Farm Credit Administration by Executive order on May 27, 1933, was the first of a number of rapid actions taken by the President and Congress to solve the desperate credit crisis which faced American farmers. By 1933, farmers' income was approaching the vanishing point. The general depression had greatly curtailed the ability of the banks to sell bonds. Other sources of credit had dried up. Lenders were foreclosing mortgages by the thousands. Hundreds of thousands of other farmers were without credit and threatened with the loss of their farms. Additional legislation was needed to enable the new Farm Credit Administration to meet the desperate need for emergency credit.

Congress made provision for emergency credit by passing the Emergency Farm Mortgage Act of May 12, 1933. This act provided a $200 million fund to the Land Bank Commissioner to make both first and second mortgage loans to refinance farmers' debts as a supplement to the Federal land banks. These loans were handled through the existing Federal land bank system. The Emergency Farm Mortgage Act also provided for a temporary reduction in interest rates on Federal land bank loans. The land banks were reimbursed from the United States Treasury for the difference between the interest rate the farmers contracted to pay and the emergency rate established by Congress. The legislation also provided for extension of time to worthy land bank borrowers who were unable to meet their payments, by authorizing the United States Treasury to subscribe amounts to the paid-in surplus of the banks equal to amounts deferred. The act also provided for the liquidation of the joint stock land banks.

The Emergency Farm Mortgage Act of May 12, 1933, was followed by the Farm Credit Act of June 16, 1933. The Farm Credit Act provided for the establishment of local production credit associations to bring the services of Federal intermediate credit banks to farmers. It provided the original capital to organize these credit cooperatives, but arranged for farmers to gradually replace the Government-owned capital by investing in stock in proportion to the size of their loans. The Farm Credit Act also used what was left of the revolving fund made available to the Federal Farm Board to capitalize 12 district banks and 1 central bank for cooperatives.

The Farm Credit Act of June 1933 was followed by the Federal Farm Mortgage Act of January 31, 1934. This act used the Land Bank Commissioner fund to capitalize a Federal Farm Mortgage Corporation to expand the money available for emergency financing.

The additional authority and funds enabled the Federal land banks on their own behalf and for the Federal Farm Mortgage Corporation to stem the tide of foreclosures, save the farms of hundreds of thousands of families, and incidentally help unfreeze the assets of country banks and insurance companies.

From May 1933 to the end of 1935, the land bank system on its own behalf and for the Federal Farm Mortgage Corporation made 726,000 loans totaling nearly $2 billion. By the end of 1935, the Federal land bank system, together with the Federal Farm Mortgage Corporation, held 48 percent of the total farm mortgage debt of the country. The refinancing program cut farmers' interest bills by about $38 million a year. In addition, many creditors agreed to scale down farmers' debts to them so farmers might be eligible for mortgage loans and thus enable creditors to get cash. These scale-downs totaled an estimated $200 million.

With the refinancing program under control, the land bank system turned to the task of finding ways to straighten out the overlapping territories of national farm loan associations, later designated Federal land bank associations, and to strengthen their financial structure. The stock of over one-third of the associations was impaired.

By 1939, the land banks found many of the borrowers they and the Federal Farm Mortgage Corporation had financed were still not able to make enough progress to indicate they would be able to handle their debt load. The foreclosure rate on loans of the Federal Farm Mortgage Corporation rose.

It was at this time the Farm Credit Administration was transferred from its independent agency status to become a part of the United States Department of Agriculture. To leaders of the Farm Credit Administration, loss of independent status seemed a threat to the cooperative nature of the farm credit system. In the period between the President's message to Congress on Reorganization Plan No. I, April 25, 1939, and the actual transfer, effective July 1, 1939, protests were made to the President and to Congress.

Dissatisfied officials of the Farm Credit Administration and others who opposed the transfer were assured by Secretary of Agriculture Henry A. Wallace on May 22, 1939, that the Farm Credit Administration would not become an integral part of the Department of Agriculture. It would remain an autonomous agency except that it would report to the Secretary of Agriculture rather than to the President.

After reviewing Farm Credit Administration policies in relationship to other policies and programs of the Department of Agriculture, Secretary Wallace decided that the Farm Credit Administration as a part of the Department of Agriculture should have its functions coordinated with the other activities of the Department. Forrest F. Hill was succeeded as Governor of the Farm Credit Administration by Albert G. Black, who had been serving as the Department's Director of Marketing and Regulatory Work. The appointment of Black as Acting Governor was announced by President Roosevelt on December 20, 1939. These changes were followed by an easing of the foreclosure policy of the banks and the Federal Farm Mortgage Corporation which resulted in cutting foreclosures from 18,694 in 1939 to 9,407 in 1940. Variable payment plans geared to farm income were tried on 7,000 farms, and standstill agreements on second mortgage Federal Farm Mortgage Corporation loans were put into effect on about the same number of farm loans. The effort to resell or lease foreclosure farms to former borrowers or their relatives was increased.

The programs of the Farm Credit Administration were a major factor in reducing the rate of foreclosures during the 1930's. In 1934, there were 27.8 foreclosures per thousand farms mortgaged, while in 1936 the number had declined to 20.0. During World War II, FCA used its loan authority to help farmers make changes needed to increase production, while encouraging the paying off of earlier loans. On December 4, 1953, the Farm Credit Administration again became an independent agency.

While programs under the Farm Credit Administration were helping middle-class farmers, something more was needed for the poor. A first step in this direction was the establishment of the Resettlement Administration on April 30, 1935, as an independent agency headed by the Under Secretary of Agriculture. The immediate objective of the program was the short-term relief of impoverished farm people. Major longer-term goals included relocating those in the worst situations on new and more economic farms or in part-time farming communities where they could grow their own food and find jobs in new industries. In 1937, the Resettlement Administration was transferred to the Department of Agriculture and became the Farm Security Administration. The Bankhead-Jones Farm Tenant Act of July 22, 1937, provided authority for a tenant purchase program, with the government loaning money at low interest rates to disadvantaged farm families so that they could buy land, and a rehabilitation loan program to pay farm operating and family living expenses and provide technical guidance. While these programs administered by the Farm Security Administration were popular, as contrasted with some very unpopular resettlement programs, they reached only a few of the people in need. For example, during the first year that the tenant purchase program was in effect, fewer than 2,000 of the 38,000 applicants received loans.

The Farmers Home Administration Act, approved August 14, 1946, combined the Farm Security Administration and the Emergency

Crop and Feed Loan Division of the Farm Credit Administration. The new organization was named the "Farmers Home Administration." The law authorized the Secretary to make production and subsistence loans to farmers who could not secure credit elsewhere. These loans were in lieu of the emergency crop, feed, and seed loans, and the rural-rehabilitation loans made previously. The law provided for the liquidation of rural-rehabilitation and resettlement projects and for the disposal of farm labor camps. It continued the tenant-purchase program initiated under the Bankhead-Jones Act of 1937, and authorized a program of insured farm mortgages.

During the year ending June 30, 1948, over 250,000 families participated in the supervised loan programs of the Administration. About half of these families were borrowers for the first time under these programs; the remainder were borrowers of previous years.

In its first 3 years, the Farmers Home Administration confined its operations to the development of supervised farm ownership and farm operating loans, and to water projects. Beginning in 1949, the agency was charged with making loans to help farmers build or repair houses and other farm buildings. In 1954, loan responsibilities under the Watershed Protection and Flood Prevention Act were also assigned to the Farmers Home Administration.

The Farmers Home Administration authorizations under various acts governing virtually all of its programs, except housing, were consolidated and expanded under the Consolidated Farmers Home Administration Act of 1961.

For a number of years the Farmers Home Administration was responsible for loans relating to rural development. In 1972, this responsibility was increased with passage of the Rural Development Act. Although programs have changed from year to year, they have aided many rural communities throughout the United States.

The Programs in Place. Although the Secretary of Agriculture has a representative on the Federal Farm Credit Board, the Farm Credit Administration is an independent agency. Its banks and associations have paid off funds advanced in earlier years by the Federal government, and loan funds provided borrowers are obtained primarily through the sale of securities to investors. The system meets much of the credit needs of the commercial farmers of the nation. In times of credit pressures, such as the late 1950's and the mid 1980's, its policies are generally conservative and protective of the interests of its members.

The Farmers Home Administration is responsible to the Secretary of Agriculture and is dependent upon Congress for yearly appropriations. Acts of Congress pay its salaries and expenses and establish ceilings on the aggregate levels of loans permitted to be made or guaranteed out of its three revolving funds. These funds are largely self-sustaining and require appropriated funds only to make up any losses incurred in previous years. When there are pressures to reduce expenditures, which sometimes come when credit needs are greatest, Farmers Home is often placed in a difficult position. During the 1950's, for example, the agency was under pressure not to loan all of its funds, and administrative regulations were adopted that limited farmers access to Farmers Home Administration's supervised credit. Congress, however, appropriated more money for loans than the administration requested and insisted that it be spent. On the other hand, in the 1970's, the agency may have gone too far in making loans that would be difficult to repay.

Historically, periods of prosperity on the farm generally resulted when exports of farm products were high and farmers were producing enough to meet those demands. Wars have also led to farm prosperity. Conversely, a sudden decline in foreign demand, particularly when combined with high production on American farms, has led to farm depression. Problems have also come about from crop failures for one reason or another, particularly wide-spread drought.

There is, as might be expected, a marked relationship between farm prosperity and depression and the value of farm land. During periods of prosperity farmers may overborrow, using their land as security. Then, in periods of farm depression as land values fall, there is less to back up loans and pressures arise to make more loan funds available, to extend periods of payment, to negotiate forgiveness of some percentage of the loans, or to legislate moratoriums on foreclosures. This is the situation in 1985.

Mr. English. Would you expand on your statement, particularly in the area of local control versus centralized control of the Farm Credit System? I know it took decades to get from the Roosevelt Commission to today's liquidation and merger of PCA.

What can you tell us about that?

Mr. Rasmussen. Well, without getting right up to the present—and I am not too familiar with what is going on now—one of the strengths of the Farm Credit System was that it was basically a decentralized organization, with control pretty much at the local level.

This meant that the Farm Credit Administration was able, in my mind, to meet many of the needs of its members, of its borrowers, that might not have been met if they had been subject to some policy set from, shall we say, far away, that might not have permitted attention to local matters.

A couple of years ago, I was talking to one of the District Farm Credit Administration groups, and we got into a considerable discussion. Those local people were certainly very adamant that they wanted to retain that local control and they told me why. They thought that if they didn't, they would run into real difficulty in administering the loans in their districts.

Mr. English. Well, is there an insulation factor involved with that type of local control, from district to district, from area to area? If you have difficulties of sizable proportions taking place in one district, that has a tendency to insulate another district and another area, but if they are all put in together, is there possibility of that spreading.

Mr. Rasmussen. That, of course, is the argument for putting it all in together, that you spread the risks—if you are prosperous, say, in Oklahoma, and not as prosperous in my home State of Montana, some of the money could flow from Oklahoma to Montana.

Mr. English. Does it not also mean, though, that if you have difficulty in one area, and greater difficulty in the other, what you may succeed in doing is breaking down both areas?

Mr. Rasmussen. There would certainly be that possibility.

Mr. English. You used the analogy of wholesale and retail outlets for credit in discussions of limited uses of intermediate credit checks, back in the 1920's.

Have you any indication whether today would be any different from the 1920's, when all local associations would disappear?

Mr. Rasmussen. I'm sorry, I'm just not familiar enough with the situation to respond to that.

Mr. English. In the prepared statement of one of our later witnesses today, they mention aggressive lending on the part of the Farm Credit System in the 1970's.

Does the history of the System show whether it was intended that the Farm Credit would stand as a complement to the privately owned commercial credit sources, or that it should compete with commercial sources?

Mr. Rasmussen. When the Farm Credit Administration was set up in 1933, there were virtually no banks with money available to make loans to farmers.

We were in an era where there was a desperate need. It wasn't that we were in this for keeps. The ideal was never to keep business from the commercial banks, but in all agricultural areas of the country, both during World War I and immediately after the war, and when the Farm Credit Administration was established, there was a definite lack of commercial loan facilities in the country. That's why it actually passed.

Mr. **English.** You state that in periods like today, System policies are generally conservative and protective of the interests of its members.

By the word "members," do you mean "borrowers" or do you mean "the banks"?

Mr. **Rasmussen.** Well, actually, I mean both, but, more particularly, the banks suffered.

Mr. **English.** Historically, is there any significant relationship between exports and the value of the dollar?

Mr. **Rasmussen.** Well, certainly. I think most anybody could take a little chart and relate those very, very closely.

It will be awfully hard to find any period in our history when we had the high-priced dollar that farmers did not suffer. Let me drop all the way back to 1890, when we had the high-priced dollar, and the farmers were in a very difficult position because all over the world other countries were competing with their low-priced currencies, and beating the American farmer out. That is why there was so much unrest in the 1890's. That is why the Populist Party came close to electing a President of the United States.

And we could say that about any period in history, with the farmers paying the price for something that they had no influence over whatsoever.

Mr. **English.** Historically speaking, he was priced out of it.

Mr. **Rasmussen.** I would think so.

Mr. **English.** You hear of various plans and proposals to bail out the Farm Credit System. If any of them come to fruition, it would be natural for the Farm Credit System to resist having any strings attached, and it would be natural for the Congress to insist on such strings.

From history, what should we learn about strings and attachments?

Mr. **Rasmussen.** That's a very difficult question. When Congress passed the most recent Farm Credit legislation, the Farm Credit people said, "We are using our own money now, so we shouldn't have any 'strings' at all." Earlier when it was being financed by appropriations—and they were over $2 billion in the very early days—they were not so strongly against such "strings" because they realized that if they were going to get the money, there would be strings attached.

I really should not try to answer that question except to say that if there is a so-called bailout of the Farm Credit Administration, it is difficult to see why Congress really would do that, without making sure that the money was used in a way that Congress felt that it should be used.

Mr. **English.** In the same vein, what does history tell us about the kind of bailout that might be appropriate to solve the problem?

Mr. **Rasmussen.** Well, there are two or three things in the past that have happened, particularly around the Great Depression.

One was, of course, a law was passed that virtually made farm foreclosures illegal. You had to go through a process that kept farm foreclosures from taking place for about 5 years after the first action was filed.

This was the Frazier-Lempke Emergency Mortgage Act. It was declared unconstitutional and was replaced by a second, under which Congress said that before foreclosures could take place the farmer and the lender had to go through an adjustment procedure. They had to go through one of their local committees to see if the debt could be adjusted, that is, to see if something could be worked out locally between the lender and the farmer, and once that was done, then the Farm Credit Administration money would be available.

Mr. ENGLISH. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Rasmussen, in your statement, you described the long line of national and executive actions that have taken place over the century to give the farmers credit.

Is it possible we have derived a single lesson from that history; specifically, can you find a single intention behind those actions either to preserve the farmer or preserve the farm finance system?

Mr. RASMUSSEN. I think that behind all of these acts, there was the intention to preserve what we might today call the "commercial family farm."

And with that, if we are going to preserve the commercial family farm, we have to have some sort of a farm credit system. I believe Congress had both of those ideas in mind all the way through.

I think if there is any one lesson that we could draw from these series of acts is that there is no magic wand. There is no one act that we could have passed in 1933 or in 1954, or indeed in 1985, that would be applicable to all situations at all times.

Situations change and Congress and we need to keep some sense of change. The Farm Credit Administration, the Farmers Home Administration, and the commercial banks must be willing to adjust to meet these different situations.

Mr. LIGHTFOOT. Just for a minute, I want to discuss both the Farmers Home Administration and the Farm Credit Administration.

Back in 1946, when the Farmers Home Administration Act was enacted, you note that the law authorized the Secretary of Agriculture to make production and subsistence loans to farmers who could not secure credit elsewhere.

At the time Congress debated that proposal, concern was expressed that the provision of such authority might keep less efficient farmers in business and create overproduction to the detriment of all the farmers?

Mr. RASMUSSEN. There was some comment to that effect, but at that time, we were just coming out of World War II, and there seemed to be such an unlimited demand for American farm products that this was really a minor matter at the time.

One other thing that was very probably in the thoughts of Congress at the time was to provide a system to help some of the returning veterans get back onto the land and set up farms with those loans. The new Farmers Home Administration did a great job on that.

Mr. Lightfoot. Times change affecting a lot of things.

Mr. Rasmussen. Yes.

Mr. Lightfoot. Just two more quick questions.

As far as the Farm Credit Administration is concerned, could you elaborate some on the independent status of the Farm Credit Administration, particularly why the various interested parties were so interested in it; and also in reviewing history of that issue, do you see any reason why the farmers would care one way or the other about the agency status of the Farm Credit Administration?

Mr. Rasmussen. Well, of course, I have spent all my life in the Department of Agriculture. I think everything should be under the direction of the Department of Agriculture, you see; and then everything would be working very well. [Laughter.]

It was an interesting thing. The Farm Credit Administration was set up as an independent agency. All during the thirties, the Department of Agriculture kept pushing and hollering to bring the Farm Credit Administration under the jurisdiction of the Department.

That did happen. It was brought under the jurisdiction of the Department in 1939.

The arguments against bringing it under the jurisdiction of the Department was that the Credit System might be used in a way to bolster what the Department wanted to do, to bolster the Department programs rather than to pay sole attention to the credit needs of the American farmers.

After the Farm Credit Administration was in the Department—from 1939 to 1954—that argument was still raised. It happened, though, at that time, there was not great pressure upon the Farm Credit Administration. We were just moving into World War II with unlimited demand, and the pressure on the Farm Credit Administration was to make loans to farmers to increase production.

And they did very, very well, in fact. They also had a program to get earlier loans repaid, and they did very well at that.

So this controversy did not arise in the 1940's in any real sense of the word, but then you got to the early 1950's, and it looked like surpluses were going to pile up again.

And, again, the argument was made, will the Secretary of Agriculture use the Farm Credit Administration to try to bolster the programs of the Department?

There seemed to be some reluctance, sir, about that, but the Congress did establish the Farm Credit Administration as an independent agency.

And the Farm Credit Administration has jealously guarded that status ever since.

Mr. Lightfoot. One final question. This may be out of your bailiwick to some degree, but one of the things that we hear in relation to farm credit is corporate and foreign ownership of land in the various States.

Do you have any information on how old some of those laws are, and how widespread they might be?

Mr. Rasmussen. I have no idea.

Mr. Lightfoot. Thank you very much.

Mr. English. Thank you very much.

Mr. Rasmussen, has there been a time since the Great Depression in which the American family farmer has been more threatened than this spring?

Mr. Rasmussen. No, I don't believe so.

We had a serious depression in the mid-1950's—in 1956, 1957, and 1958—but it did not reach the proportions of the present.

I'll just add to that a little bit. If you look at farm income today, it's at one of its low points since the 1930's.

Mr. English. The attitude during the 1930's—I am thinking of, not the American people particularly, as much as I am government—was the attitude in the 1930's toward trying to work out some arrangement with the farmers to stay on the farm?

Is this far different than it is today?

Mr. Rasmussen. Well, again, that's a question that is a little bit complicated. Certainly, the banking—there was a feeling that the Government should do everything possible—it should try everything possible—you did not have to have an ironclad guarantee the thing was going to work. Let's go out and try it, and see if it will help. If it will help, we will go with it; if it doesn't, we'll get rid of it.

So, there was that attitude of experimentation, of time.

There was also a feeling then that President Roosevelt expressed when he called for the first laws setting up the Farm Credit Administration. He said that we must restore farm prosperity if we were going to restore prosperity in the Nation, because the Nation depends upon the prosperity of the farmer. That was the theme then in the thirties. If we were going to get out of this Great Depression, we needed to restore the farm economy.

Now, there is less of that said today.

But, I would say that in the Department of Agriculture that the people I know there and talk with are very concerned with helping the American farmers come through.

Mr. English. Well, I am thinking more of governmentwide. If we're down to the only place that there is any real concern being focused in that area is the Department of Agriculture, of course, we're down then to a very small part of government.

What about the 1920's? How was the attitude in the 1920's before the stock market crash, and then agriculture was in great difficulty and sinking fast?

How would that compare to what we are seeing today?

Mr. Rasmussen. Sometimes I have said that today seems like about 1926 or 1927. In a period of general prosperity, when the whole Nation seems to be moving along and agriculture is dragging, as it was in the 1920's, it is difficult to focus a lot of public attention on the difficulties of the farmers.

They say, "Oh, well, they'll come along. Maybe they are over capitalized, or maybe they took the advice of the Department of Agriculture and expanded too much."

Or whatever it may be.

There is this feeling, "Well, we have to kind of let them work it out," or there was in the twenties. And I am sure that in some parts of government, in some parts of the Nation, and even in many of our national newspapers, you see it today.

Very often you see some columnists suggesting that the farmer went out there to get rich quick and now he has to pay for it. Which is about as far from the truth as you can get.

Mr. **English**. So you do say that it's somewhat like 1926 and 1927?

Mr. **Rasmussen**. I do.

Mr. **English**. Is there any question regarding the fact that agriculture led the way in the Great Depression?

Mr. **Rasmussen**. No, I think that most economists who have thought about the Depression and written economic textbooks now mention the farm depression as a major cause of the Great Depression.

Mr. **English**. So those who feel smug and isolated should go back to lessons of 1926 and 1927.

Mr. **Rasmussen**. They do it at their peril.

Maybe Americans don't realize that at least 20 percent of our national economy is dependent upon agriculture, and they say, "Oh, well, there goes a few farmers out there. They are the only people that are hurting."

And I was out in Iowa in January and visited with a lot of farmers and talked with a lot of small county groups in Iowa, and I heard story after story of what was happening out in eastern Iowa.

The Kane Lumber Yard went broke the week that I was there. I hope my visit had nothing to do with it.

There were difficulties like that all over eastern Iowa at that time. Two weeks ago, I was in my own home town, in Lavina, and even there in the livestock areas, the little businesses in the small towns are beginning to feel real pressures.

So, we can't afford to ignore agriculture in this great Nation of ours. It is fundamental to the economic well-being of every one of us.

Mr. **English**. It seems to me, the areas hardest hit in American agriculture seem to be out in Iowa, those areas of the country.

But it seems to me to be expanding in the other aspects of agriculture, other areas of agriculture.

Is this similar to what happened back in the twenties?

Mr. **Rasmussen**. Yes, this has been similar to the way these things go. It happened in the twenties, and it happened in the fifties. What seems to be an agricultural depression starts in what is usually a very efficient production area. They are producing the quantities of goods. They are geared up to produce, so when prices go down, they are the people who are hit first. It takes a little while for it to spread out to the less productive areas of the country, again, like my own, but it gets there. It did in the fifties, and right now it looks like it is going to in the eighties.

Mr. **English**. The problems we are observing now in my own home State of Oklahoma appear to be the same types of problems that people in Iowa and Nebraska experienced 6 months to 1 year ago. That would be typical of many situations.

Mr. **Rasmussen**. Yes, it is in many, many parts of the United States. There are, of course, some areas that I understand are doing well, but unless things turn around, they'll get there.

Mr. **English**. Mr. Lightfoot? Do you have anything further?

Mr. **Lightfoot**. No, just a comment, Mr. Chairman.

I think the statement you made, Mr. Rasmussen, something said by President Roosevelt, I think is something that is so often overlooked.

"As agriculture goes, so goes the country."

We had better watch out.

Mr. Rasmussen. I couldn't agree more.

Mr. English. There is no question, though, as far as the economy of this Nation is concerned that agriculture maintains such a large segment of it, should agriculture be further depressed, there is no way the rest of the country could be isolated from it.

Mr. Rasmussen. It never has been in the past. I don't see why it should be any different now.

Mr. English. Thank you very much, Mr. Rasmussen.

I appreciate your being here.

Mr. Rasmussen. Thank you.

[See app. 1.]

Mr. English. Our next witness today will be Mr. James R. Eatherly, who is chairman and president of the First National Bank in Tonkawa, OK.

Mr. Eatherly is representing the American Bankers Association and he has really been an active banker in the American Bankers Association Agricultural Committee, and certainly among bankers I think they will recognize that he is one of the foremost agricultural experts in this country.

And he also happens to be from the good State of Oklahoma, and used to be in the Sixth District of Oklahoma, and we feel very pleased and glad to have him here today.

If you prefer to summarize your testimony, your full written testimony will be made a part of the record.

STATEMENT OF JAMES R. EATHERLY, CHAIRMAN AND PRESIDENT, FIRST NATIONAL BANK, TONKAWA, OK, ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

Mr. Eatherly. Thank you, Mr. Chairman.

I am delighted to be here.

Mr. Chairman and members of the committee, I welcome the opportunity to present ABA's views on rural finance.

The combined assets of our nearly 13,000 member banks comprise approximately 95 percent of the industry's total.

Our members range from the smallest to the largest banks, and close to 85 percent of them have assets of less than $100 million.

Mr. Chairman, I know that I do not need to extensively review for you the current agricultural problem. The effects are displayed daily on the front pages of the newspapers from coast to coast.

The performance of the farm economy impacts more banks than many people realize. There are some 5,000 to 7,000 out of the 14,500-plus commercial banks that qualify as agricultural lenders.

The agricultural economy contributes over one-fifth of the U.S. gross national product considering both the direct and the indirect impact of the industry.

In many communities, the farm dollar is the first dollar of income to begin through the economic cycle which multiplies the income several times over.

Agriculture is a significant creator of new real wealth year after year, and it is a major contributor to our national balance of trade.

And it is not unusual to hear about farm problems. In most cases, these problems are corrected by normal economic cycles in the farm economy which cause the industry to rebound and recover.

However, this time we have some structural changes occurring within the agricultural industry that normal economic cycles will not correct without massive social and economic dislocation. These problems threaten the existence of a significant percentage of farms and an unknown, but growing number of agricultural-related banks.

Mr. Chairman, since I have submitted my written report, I have some other observations I would like to enter, and address rather directly and, No. 1, farm credit conditions continue to worsen.

From our vantage point, from our view, we cannot see any improvement.

No. 2, land values are down 40 percent in some areas—in Iowa, land values have dropped 50 percent in 5 years.

No. 3, Farmers Home Administration, a lender of last resort, currently hold $32 billion of farm debt.

No. 4, $4.5 billion of FmHA's accounts are 3 years or more delinquent.

No. 5, Farmers Home Administration is now the second largest lender for farm operating loans, surpassing production credit on the Farm Credit System.

A few years ago, FmHA held only 3 percent of these loans. Today FmHA holds 22 percent and is second only to commercial banks.

No. 6, 50 percent of farmers have a negative cash-flow.

No. 7, 12 percent of farmers owe 45 percent of debt.

Now, we carry that over to, not only the rural community, the main streets, small towns, and we look at how does that impact the small banks, the rural banks?

The farmer's economic position does this: delinquent loans increased significantly over the last 3 years. Loan losses are significant, as high as 1.52 percent of total loans at agriculture banks.

To the banker in these small towns, agriculture is the lifeblood of the community; as much as 70 percent of each dollar that comes into town is a farm product.

All of these banks are working with their borrower and staying with him as long as they can. It is to their advantage to do it, for their community, for the farmer, for their bank.

U.S. problem banks, significant increase—in 1982, there were 369 problem banks; in 1984, there were 828.

U.S. bank failures—of the 79 bank failures that occurred in 1984, 32 were designated agricultural banks.

With that brief overview there—I can expand to answer any questions that you may have.

[The prepared statement of Mr. Eatherly follows:]

STATEMENT OF JAMES R. EATHERLY ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION ON REVIEW OF AGRICULTURAL FINANCING

Mr. Chairman and members of the Committee, I am James Eatherly, Chairman and President of First National Bank of Tonkawa, in Tonkawa, Oklahoma. I welcome the opportunity to present ABA's views on rural finance. The combined assets of our nearly 13,000 member banks comprise approximately 95 percent of the industry total. Our members range from the smallest to the largest banks, and close to 85 percent of them have assets of less than $100 million.

Mr. Chairman, I know that I do not need to extensively review for you the current agricultural problem. The effects are displayed daily on the front pages of the newspapers from coast to coast.

The performance of the farm economy impacts more banks than many people realize. There are some 5,000 to 7,000 out of the 14,500+ commercial banks that qualify as agricultural banks. The agricultural economy contributes over one-fifth of the U.S. GNP considering both the direct and indirect impact of the industry. In many communities, the farm dollar is the first dollar of income to begin through the economic cycle which multiplies the income several times over. Agriculture is a significant creator of new real wealth year after year and it is a major contributor to our national balance of trade.

It is not unusual to hear about farm problems. In most cases, these problems are corrected by normal economic cycles in the farm economy which cause the industry to rebound and recover. However, this time we have some structural changes occurring within the agricultural industry that normal economic cycles will not correct without massive social and economic dislocation. These problems threaten the existence of a significant percentage of farms and an unknown, but growing number of agricultural-related banks.

Background

Agricultural problems have been building for 15 - 20 years, especially when inflation was high and interest rates were low which led to a strategy of "borrow and buy." The dollar was valued at a low level relative to other currencies, contributing to export expansion and good markets. Land was the asset to own and more and more land was brought into production as cash flow needs arose. These artificially prosperous times were analogous to international lending conditions to the extent that excessive lending was done based on prosperous economies and unsustainable low interest rates. In addition, the Cooperative Farm Credit System, through its Production Credit Associations and Federal Land Banks, became a very aggressive lender, basing its performance on volume of loans outstanding. The Farm Credit Banks lend directly to individuals and businesses as well as to farm associations and cooperatives. The latter groups, in turn, either lend to agricultural and aquatic producers or provide services to the agricultural sector.

Balance Sheet of the Farm Credit Banks ($ in M)

Year End 1984

Assets			Liabilities		
Loans made to private lenders	Other Assets	Total Assets, or total liabilities plus equity	Credit Mkt debt	Other Liabilities	Equity
77,089.0[1]	7,742.5	84,831.5	72,936.3	2,652.9	9,242,3

[1] This amount includes loans made directly to individuals and businesses.

Source: FRB Bulletin, June 1985

However, the net income of the Farm Credit Banks has receded some in the last two years. Because these banks are owned by farm cooperatives, the only purpose of profits is to add to capital as total assets increase so as to maintain the same relative cushion for potential loan losses. With asset growth flat, the Farm Credit Banks could reduce earnings. Their borrowers, many of them undergoing financial strain, consequently received some interest rate relief. Increases in loan losses and in non-performing loans, however, also reduced profitability and limited the extent of interest rate relief.

Ratio of Net Income to Average Assets

Year	Farm Credit Banks
1978	.78
79	.50
80	.43
81	.45
82	.60
83	.80
84	.96

Source: Federal Reserve Bank Bulletin, June 1985

When the strategy of "borrow and buy" got individuals into financial difficulty, further inflation, price support programs by the Federal Government, or Farmers Home Administration credit was there to save the day. In fact, up to 1980, few farmers failed because there were so many safety nets in place.

In the late 1970's, the economic rules changed. First, there was a grain embargo, hampering the United States' reputation as a reliable supplier of agricultural commodities to the rest of the world. Second, there was a basic change in Federal Reserve policy resulting in limited monetary growth and more volatile interest rates. Consequently, there was a group of less efficient and/or overleveraged farmers whose operations worked well with high inflation and low real interest rates, but who could not withstand deflation, declining land values, continued high input costs, and historically high real interest rates.

A second, but still significant result is the depressed level of economic activity in small town businesses in agricultural areas. In some ways, small business owners have less staying power than farmers because they may have less capital, and solving their problems can be tougher. For example, while a farmer may be able to come back from a difficult period by planting a small amount more, it is hard for a banker to advise a merchant to increase sales.

In summary, it can be said that past abrupt changes in monetary policy, and to a much greater extent, irresponsible fiscal policy, have had a much greater impact on agriculture than any farm policy during that time. This is true when you consider the impact on agriculture of the rapid changes from inflation to deflation, negative real interest rates to historically high real interest rates, overproduction based on record exports (a low valued dollar) to a curtailment of exports (high valued dollar).

The U.S. economy is in the midst of a strong recovery from a deep recession. Overall, the near-term outlook for the economy is positive. But there are significant concerns about the longer term outlook related to our fiscal crisis.

Our Association believes urgent action is needed now to restrain the growth of federal spending and borrowing. We believe the priority goal of economic policy should be the achievement of long-term stability. Long-term stability would mean less inflation, lower interest rates, lower unemployment, and more steady long-term real growth and a stabilization and eventual decline in the ratio of federal debt to GNP. Long-term stability can best be achieved by restraining the growth of federal spending, thereby allowing more private sector savings, investment, and job creation. We believe the ongoing House-Senate conference to resolve the differences between the budget resolutions passed by each chamber last month will produce important spending reductions.

The Current Situation in Agriculture

Let me analyze the current agricultural situation from 4 vantage points: farm assets, borrowing capacity, cash flows and agricultural exports.

Farm Assets

Because real estate constitutes about 75 percent of total assets, changes in the value of farmland dominate all other changes on the asset side of the balance sheet. Farm sector assets have been decreasing since January 1981, and financial stress in the agricultural sector is at its greatest level since before World War II. This point was confirmed by recent figures released by the U.S.D.A. stating that farm values declined by an alarming 12 percent in 1984, the greatest decline since the Great Depression. For example, land in central Illinois that sold for $4,000 an acre in 1981 is difficult to sell at $2,500 per acre today. The average reduction in the price of farm land in the Midwest has been 30-40 percent during the past three to four years.

Borrowing Capacity

During the early 1980s, farmers borrowing capacity diminished as a result of the declines in farmland values, high interest rates, and low real farm income.

Even though the cost of funds has gone up, ample funds are available to creditworthy farmers. However, once again, farmland values have made it more difficult, if not impossible, for highly leveraged farmers to obtain loans. As these farmers find it more difficult to finance their activities, they will be forced to liquidate part or all of their assets just to survive. This will inevitably force a re-allocation of assets that will continue to erode asset values.

Cash Flows

As the cost/price situation intensifies and the leverage ratio dramatically increases, farm operators are facing more severe cash flow problems. From my perspective, those efficient and productive farmers who are cash flowing at 110 percent are presently my quality borrowers and I will continue to loan them operating and other necessary capital without government assistance.

Agricultural Exports

Since 1980 and 1981, when U.S. agricultural exports peaked in volume and value, U.S. agricultural exports as a percent of total U.S. exports have declined. To put this into context, in 1973, agricultural exports accounted for 25 percent of total U.S. exports, whereas in 1983 agricultural exports totaled only 18 percent of our total exports. U.S. Agricultural exports fell 17%, from $43.3 billion to $36.1 billion between 1981 and 1983; over the same period, total U.S. exports dropped 14%, from $229 billion to $196 billion. Among major U.S. export commodities, wheat (down 21%), rice, (down 39%), feed grains (down 23%), cotton (down 20%), and vegetable oils (down 18%) fell by greater percentages than did all agricultural exports, while oil/seeds (down 7%), tobacco (down 4%), and meat (down 8%) fell at lesser rates. Several factors, namely the strength of the U.S. dollar, foreign debt burdens and the underlying declines in incomes of developing countries, excellent weather conditions, and a worldwide recession, have contributed to markedly reduced agricultural exports.

Current Condition of Rural Banks

Let me also analyze the current condition of agricultural banking from 4 vantage points: delinquent loans, loan losses, problem banks and U.S. bank failures.

Delinquent Loans

Data as of December 31, 1984 indicate that agricultural banks, defined as those banks with agricultural credits comprising 25 percent or more of total loans of the bank and less than $500 million in assets, had a larger percentage of their loans delinquent as opposed to other small banks. This was not true three years ago prior to the agricultural crisis when loan delinquencies at agricultural banks were lower than at other small banks.

Loan Losses

The relative loan losses (net charge-offs) and provision for possible loan losses rose at agricultural banks during 1984, reaching levels that significantly exceeded loss rates at other small banks. The loan loss experience at agricultural banks was 1.22 percent of total loans. This figure exceeded the loan loss experience at other small banks by more than half a percent.

Problem Banks

The number of problem banks reported by the FDIC have increased over the last decade. But the significant increase in the number of problem banks has occurred during the last three years, as shown below.

Number of Problem Banks

1970	1974	1978	1982	1983	1984
252	183	342	369	642	828

U.S. Bank Failures

Until recently, agricultural banks were underrepresented among failing banks. For example, out of the 10 bank failures in 1981, only one was an agricultural bank. However, out of the 79 bank failures that occurred in 1984, 32 were agricultural banks. As shown below, the number of bank failures closely parallels the rapidly increasing number of problem banks among agricultural banks since 1983.

Number of U.S. Bank Failures
Averaged Five Year Increments, Then Selected Years

1961-65	1966-70	1971-75	1976-80	1981	1982	1983	1984
6.6	6.4	6.8	9.8	10.0	42.0	48.0	79.0

As the number of problem and failed banks continues to increase, confidence in the nation's banking system is eroded. Not surprisingly, the bulk of today's troubled banks have a high percentage of agricultural loans.

Proposed Changes

In attempting to suggest methods of easing the impact of current agricultural problems on banks with a high percentage of agricultural loans, our Association has, for the past three years, conducted regular meetings with the chief supervisory personnel of the federal banking agencies. The focus of these meetings has been on the need for understanding on the part of bank examiners when examining agricultural banks and agricultural borrowers. Although our Association would not suggest and could not support any generalized moratorium on bank closings, we do believe that, given time, many banks will be able to manage their way out of the current difficulties. Meanwhile, we think there are a few areas in which improvements should be made.

Farmers Home Administration

In 1984, when farm balance sheets were not much better than in 1985, the FmHA reported that 6,713 of its borrowers left farming because of financial stress. Since FmHA makes loans to the shakiest farm enterprises — those which cannot obtain credit elsewhere — this number should be a substantial fraction of all farm failures. Nonetheless, the decline in land prices since 1981, the declining real commodity prices, and the high real interest rates are undoubtedly placing many farm operators, in a real financial squeeze even if they do ultimately survive in farming.

The operation of the Farmers Home Administration (FmHA) must be examined in relation to the whole structure of this country's financial institutions and the credit needs of the agricultural sector of the economy. During consideration of the 1985 Farm Bill, the ABA recommends that the credit programs administered by the FmHA be restructured.

Any federal credit activity involves a subsidy and the costs of subsidies are borne by the taxpayer.

The insured loan program of FmHA is much more dependent on government funding and commands more of a subsidy than does the guaranteed loan program where the loans are provided by private lenders. We believe more of each year's appropriations should be used for loan guarantees in lieu of direct lending by FmHA.

Three major issues need to be resolved in the guarantee program: the timely processing of guarantee loans, the consistent application of FmHA regulations at the state and local county levels, and a commitment by FmHA to honor the guarantee in the event of default. Deputy Under Secretary of Agriculture, Kathleen Lawrence, has agreed to participate in an agricultural commercial lenders task force to reevaluate the FmHA guarantee and address our concerns. Let me highlight in more detail the issue of confidence in the FmHA guarantee.

In order to remove the lack of confidence in the FmHA guarantee in the event of default, we believe that procedures must be modified for more expeditious payment with fewer complicating restrictions. The common perception that guarantees through FmHA are not collectable or at best undesirable due to the required complete liquidation of assets prior to any disbursements must be addressed. If the guarantee must be exercised and the lender has followed prudent lending practices, then FmHA should reimburse the lender to the full extent of the guarantee. A procedure for liquidation similar to that offered under the Small Business Administration guarantee loan program should be implemented allowing for early disbursements of guaranteed proceeds based on expected liquidation values.

Congressional attention to the agricultural situation has resulted in the addition of an interest rate write-down to the FmHA's Debt Adjustment Program (DAP) and the adoption of provisions that closely follow recommendations made by the Agricultural Bankers Division of the ABA. These provisions include: reduced cash flow requirements; an extended period of time over which loans can be restructured; and improved guarantee provisions. Further, the Administration has stated that additional guaranteed funds will be provided if needed.

Other Proposed Changes

Our Association is interested in exploring possible solutions to the major problem of declining land values. A secondary market for agricultural loans should be given serious consideration as well. The ABA also encourages additional emphasis on export incentives for farm commodities versus the heavy reliance on internal supply controls.

Changes in Federal Banking Policy and Banking Services

Our Association believes that further deregulation of the banking industry would be beneficial to rural banks and the rural economy. Specifically, we support the expansion of the list of permissible bank holding company activities and Congressional authorization for geographic expansion within the spirit of states' rights. Also, we believe these proposed changes must be tied to the elimination of the nonbank-bank loophole.

Partial deregulation of the banking industry has taken place over the past five years with the phase-out of deposit interest rate ceilings. By one estimate, consumers have received more than $34 billion in interest income that they would not have received from banks had the government maintained the ceilings. But deregulation of bank liabilities without a corresponding ability to offer new products and services limits the industry's ability to serve the economic needs of the nation. The answer must be further deregulation, both to ensure the future health of the nation's financial institutions and to satisfy increasingly vocal consumer demands for broader choices in financial service markets.

All of us as consumers have been sensitized by inflation, which has forced us to seek the maximum possible return on our deposits, and by the need to obtain in a convenient way a very wide variety of financial products and services. The problem is that outmoded laws and regulations essentially limit banks to three lines of business -- taking deposits, making loans and operating the payments system. While banks remain bound by these limitations, other organizations -- Sears, Prudential, American Express and scores of others -- are pioneering the financial services and service packages that consumers require. There is competition today, but it is not fair or free.

Earnings lie at the heart of our industry's soundness. Earnings are used to build capital, to shore up reserves when necessary and of course to pay a fair return to shareholders, thus ensuring a continued supply of new capital when it is needed to support economic growth. The key to earnings is competition that is fair and free. The way to achieve fair competition is deregulation. Not a reduction of bank supervision and examination, but a removal of the artificial barriers to competition that today block banks from competing fully, efficiently and effectively. We believe bank holding companies should be allowed to enter new lines of business — in the field of securities: the offering of mutual funds, and underwriting and dealing in municipal revenue bonds, mortgage-backed securities, and commercial paper; in the field of insurance: underwriting and brokerage; in the field of real estate: equity investments, joint ventures, development and brokerage.

Deregulation as advocated by ABA would diversify banking not only in terms of products and services offered, but also in terms of geographic location. Diversification would spread risk, generate new sources of earnings and over the long term strengthen the capital base. All three are necessary.

Spreading risk means operating in more than one or a few lines of business. When this happens, earnings in one area can cushion the impact of downturns in other areas, including agriculture. Spreading risk further by operating in more than one limited geographic area strengthens the equation even more — when one local economy suffers a set back, earnings derived from operations in other communities allow the business process to continue unimpeded.

New sources of earnings also help to balance the net interest margin squeeze that has been created by deposit interest rate deregulation, again strengthening safety and soundness.

The ultimate importance of earnings -- over and above paying shareholders a return sufficient to assure future access to new capital -- is that earnings can be applied to capital and set aside in reserve accounts, which are the first line of defense of the industry's safety and soundness.

The ABA also believes that consumers would benefit from the expansion of banking's products and services, and geographic expansion. These benefits fall into three areas. First, consumers would receive direct, tangible benefits in the form of lower prices for financial services -- price reductions driven by increased competition. Second, consumers would benefit by having more and better financial services and products available to them. Third, deregulation would allow banks to put technology to work for consumers, providing a wide range and high quality of services.

But laws and regulations are blocking the road to progress.

Conclusion

The American Bankers Association supports the goal of reducing government's role in agriculture. Nevertheless, with today's fragile agricultural economy, any rapid and major shift to market orientation, or significant decline in price and loan support levels could be disastrous, especially in the central grain producing states. Farmers, agricultural suppliers, and creditors must be given time to adjust to the current environment of deflation of assets, high real interest rates, and the over-priced dollar.

We believe our proposed changes would help, but the best way to achieve a sound farm economy over the long term is through lower real interest rates and more realistic international exchange rates. We believe the over-valued dollar which appreciated by almost 15-20 percent last year and high real interest rates, precipitated by runaway spending by the Federal Government, are the primary problems. Some agricultural issues will be addressed in the 1985 Farm Bill, but the most important issues remain with the overall Congressional budget, authorization and appropriation process underway. We believe that a consistently sound monetary policy combined with an effective policy for controlling the federal deficit are necessary to strengthen the agricultural sector.

Thank you for the opportunity to testify before you today. I will be pleased to answer any questions you may have.

Mr. **English**. Jim, I know that in the past, particularly during good times, the bankers always felt like the Farm Credit Administration was convenient competition; but today, it appears to me from the bankers that I have talked to, particularly country bankers, they are more concerned and alarmed over the situation within the Farm Credit Administration and whether they are going to be capable of providing assistance to the American family farmer than at any time since I have been talking about that situation.

So, I suppose that to a certain extent would it be accurate to say that at this particular point some people have been abused competitively in the past and are the ones that are most concerned about the health and livelihood of the Farm Credit Administration today?

Mr. **Eatherly**. Mr. Chairman, I think you are exactly right. At one time, I think, about 5 years ago when the Farm Credit System was asking for additional authority, I know a lot of commercial bankers opposed that authority.

But today, those very bankers are certainly concerned about the welfare of the Farm Credit System. Bankers need the Farm Credit System. We need the Federal land banks. We need the long-term lender. There are no long-term lenders out there today. The insurance companies, sometimes they say they will lend, but they get out—they get in the business and out of the business awfully fast, but the agricultural bankers of this country have a great concern that they will not have any place to go with the long-term farmer loan.

Bankers prefer to make shorter loans, and it has always been a tradition for the Federal land bank to lend long.

Mr. **English**. A banker in most States is not a farmer but is certainly closely connected and has an opportunity to see firsthand the operation of the farmer.

Can you give us your perspective, both nationally and the State of Oklahoma and ABA's vantage point, how things look for the American family farmer?

As I mentioned to Mr. Rasmussen earlier, we have a lot of people that say, well, it is the farmers' fault; they got themselves into this trouble—bad management.

Can you elaborate on that?

Mr. **Eatherly**. Yes. I would like to address it this way. There are some farmers—to go back into the background—some farmers did make some mistakes in overbuying based on high prices, bought land; and that was a good mistake.

But all the farmers didn't do that. And you have a large number of farmers who are caught in an economic vise, something they can't do anything about. They have no control over the prices they get for what they produce; they have no control over the cost of that production. The saddest thing for me to see today is a 55-year-old farmer—he has been farming for 25 or 30 years.

He was an operator just barely holding on, thinking that he could lose his farm—might lose his farm. He hasn't done anything wrong.

Today in our area, wheat's $2.85 a bushel. You can't produce wheat for $2.85. He didn't do anything wrong. We have overproduction. We have an embargo. We have—we went through the inflationary period and we have a deficit, and we have a high-valued dollar, and, true, all those things impacted.

But what did he do wrong? He didn't cause the inflation. And a lot of people will blame farmers today, and I hear it, and it upsets me when I hear someone say that the farmer got himself in trouble.

The only way he got himself in trouble was trying to plant every available acre he could in order to produce every available bushel he could in order to service his debt. And he had to do it.

Mr. **English**. So, I talked to Mr. Rasmussen about the comparison between 1926 and 1985, and I know that you are familiar with the financial difficulties that we have.

Again, I find no one from my district in Oklahoma that is more sensitive to the impact that agriculture has on rural communities that live than bankers; and are more concerned about it.

I found no banker who feels that he is safe or his community is safe and isolated from those difficulties, who feels there are just a few farmers out there who are going to have to go out of business in order to clean the system up, and that economic prosperity is just going to be around the corner.

Would you elaborate on the impact this has on the rural communities from a banker's standpoint?

Mr. **Eatherly**. Yes, first you have a psychological factor. When someone goes out of business, it is not an easy thing to do.

And then you have a—kind of a domino effect, that this is the way you go—bam, bam. And that's bad.

You have bankers that are as frightened as some of the farmers are. They don't know why.

But the sad part is that no one knows what to do—none of us in the trenches, on the firing line. We don't know what to do.

We try to work with the farmer. He tries to work with us. But we are working in an economy that we have no control over, and this is frightening when we work in that kind of an economy. We not only have the weather and Mother Nature to contend with. We have the economy.

And we are all concerned about our communities. There used to be a little white schoolhouse out there every 3 or 4 miles, and now they are talking about consolidations. Now, we drive by and see where the towns used to be, and there is nothing but a few old buildings down there.

We don't know if we are looking forward to a future to see ghost towns in some of these rural areas, or not. There is a lot of concern.

Mr. ENGLISH. If there is no change, if there is no action, is there any doubt in your mind as to what we are looking at?

Mr. EATHERLY. I don't think so.

I think we will lose many cities. I think we will lose the banks. I think we will lose the school systems, as we consolidate with larger schools, and some of the families.

Mr. ENGLISH. What is the ABA's view?

You are acting now on the national level, and I would be interested for the State of Oklahoma, in knowing how many farmers are in serious trouble today, nationwide, and statewide?

Mr. EATHERLY. I couldn't give you the number. We are talking percentage.

We always hear that there is around 10 or 15 percent in trouble, and that concerns me. It seems that we are always trying to say that he is the man who is in trouble. We don't reach up on the next plateau and try to do something, or plan for if the man drops down into trouble.

And the only way to keep more farmers from getting into trouble is to see that they can make a profit.

But the trend continues downward; more and more farmers are feeling the pinch.

In our bank, this particular year, we have had more than ever before, and they have felt the shoe getting cramped.

And the talk is now, how long will this thing last? Will it last through 1985, 1986, 1987? How long can farmers continue to hold on?

But I suppose what gets my attention is the $32 billion farm debt. I don't know what bankers would do without FmHA. I don't know what little communities would do without it. I don't know what farmers would do without it.

They have guaranteed a lot of loans and they have made a lot of money available. And they are trying to be helpful. But still, we need a price. Somehow we need it—these good farmers shouldn't have to drop down and take FmHA money, but it keeps them in business. It saves them for a while, anyway, but no one knows for how long.

Mr. ENGLISH. If prices are depressed 15 percent per year for the next 2 or 3 or 4 years, what is going to be the impact?

Mr. EATHERLY. They just won't be here. Every bank is faced with farmers wanting an improvement, and the man has borrowed on all his equities, and all the time his farm machinery has gone down, and his land has gone down, but the banker is still staying with him, hoping things will get better.

I was at a meeting the other day, and it was brought up that what we have to do now is to service the assets for which the market prices are about 15 to 20 percent too low. In order to service those assets the assets should be maybe 15 or 20 percent lower.

So, I don't know if that means that land is going to go down another 15 percent, and that way we create a pile of wheat to service the asset or what.

Mr. ENGLISH. If you see over the next 3 or 4 years a reduction of 15 percent per year in what is probably one of the best wheat-growing counties in the Nation, in Kay County, OK, how many farmers will be able to survive that kind of difficulty?

Mr. EATHERLY. We look at it this way—the top third would borrow money, and the second third would borrow operating money, and the third third, putting money; and on the third third, you have about 15 percent of them who will pursue time.

So, you could probably lose all of 15 percent, plus another 5 or 10—20 percent of the farmers.

Mr. ENGLISH. In your statement, you said that in the last dozen that the Farm Credit System became a very aggressive lender.

Can you expand on that?

Mr. EATHERLY. The Federal land bank—they were aggressive. Production Credit was aggressive. Many of our banks were aggressive, but because of the size of the Farm Credit System, it would appear that they were more aggressive than others because they depend on the farmer or farm producers. Banks don't rely totally on farmers.

I do think the Farm Credit System was extremely aggressive in our area.

I think that nationwide it has——

Mr. ENGLISH. It appears that the consolidation plan of the Wichita Farm Credit Banks will remove the local lending authority.

What do you see might be the effect on the borrowers?

Mr. EATHERLY. I think if you are talking about combining the Production Credit Office with the Federal land bank, I would think that that would reduce some overhead for the Farm Credit System, and which would be good because they have been seeking ways to cut their expenses.

And I might add that all the bankers of this Nation, they have sympathy for the Farm Credit System. While we always have been fierce competitors, we certainly don't want to see anything happen to them now. We want to see them get back on their feet.

I know that there are a lot of rumbles going on out there, when we hear about losing local control; and once this thing isn't locally controlled any more, then it comes from higher up the ladder.

Mr. ENGLISH. Then in the Wichita region, we are talking about doing away with 37 local PCA and land bank boards of directors, and consolidate that, what impact do you see is happening there?

Mr. EATHERLY. I don't think it would have anything on commercial banks.

Mr. ENGLISH. What about the borrowers?

Mr. EATHERLY. I think the borrower would be—we might look at it this way, too. No longer would the borrower be known to the

Federal land bank people like he is today. We have smaller districts, and we know all the board members; and someone would know the borrower.

But if we limited the number of districts there might not be that knowledge—the firsthand knowledge of your customer that you would have.

Mr. English. I know that in the honorable State of Oklahoma, first of all, banks are locally owned establishments, locally managed. The bank presidents know their borrowers personally.

There have been those who have said that there should be a nationwide banking system; that there should not be any barriers to the Bank of New York owning the Bank of Oklahoma.

Would this have the same type of impact for consolidating local boards into one as it would be to, say, have a national type banking system, or at least a regional banking system?

Mr. Eatherly. I think interstate banking is coming, but I think that the, as we say, "the across-the-desk" and "eyeball-to-eyeball" knowledge of the customers the bank has had for years—anyway, nothing can replace that every day, but, of course, everything changes; and I think that bankers probably could do the better job if they could offer more services; and right now they can't. We can just lend money and take deposits.

If it would mean that the bankers could now sell securities and be in the insurance business, and I would say we should let the bankers do that, to take that step.

But I would say that it should be a not complete interstate banking. I would say a—give you a State kind of reciprocal agreements, when you have your common economy.

You might have a city where it would come in—where you'd have Texas coming into Oklahoma, where you have Kansas coming into Oklahoma, and you have got wheat and oil——

Mr. English. It appears that the farm lenders in general started to base their decisions more on cash-flow ability and less on asset value. What are the implications that you see with this kind of change?

Mr. Eatherly. It is extremely hard to issue a cash-flow loan today but it is a more scientific method than lending on assets.

Historically, bankers would lend on the value of land or the value of equipment, and they didn't care to do much about the income. I think it went by the man's reputation, the borrower's reputation. He always paid him. He had been loaning to him for 25 years.

But about 5 or 6 years ago, most bankers switched to the earning capacity, and they went by the cash-flow, and no more do you lend on just plain assets, because the worst way in the world to pay a loan is to pay it by selling collateral, and selling the assets. That was one of the reasons.

Mr. English. From your knowledge of the Farm Credit Administration and the manner in which it operates and seeing it from your vantage point, in your opinion is it going to have to take a major effort by the U.S. Government in order to save it?

Mr. Eatherly. I think so.

The magnitude and size of the organization—and I wouldn't want to see the customers lose confidence in it. I would like to see them stay viable and to—if they need help by the Congress, they have to have it.

I think if they are needed to help take care of this financing, the long-term market—again, I'll come back to that, bankers just don't have a vehicle to handle long-term real estate.

Mr. **English**. If Congress or the President, the U.S. Government, does not act to deal with the agriculture problem of the country, do you feel that that will seriously endanger the overall economy of the Nation in the same manner it did in the 1920's and 1930's?

Mr. **Eatherly**. Yes, sir. I do.

I think unless something is done—I have been to many meetings, and most of us have, and the issue has been addressed, and the problem has been discussed many, many times; it has been refined many times.

Yet there hasn't been a solution where we can really do something; and something has to be done in order for the farmer to make a profit.

And I am not going to have the wisdom to tell someone how that can be done, but it is needed, very, very much. The farmer has to make a profit. Right now, he is just holding on. In fact, he is sliding backward now at times. The farmers need it.

And in order to help get strong rural communities, a good school system, you have to have good farmers, financially sound.

Mr. **English**. Jim, that completes all the questions I have. We may have some additional written questions that we would like to submit to you, so we would appreciate it if you can respond to those in a timely fashion.

Mr. **Eatherly**. Thank you. I appreciate the opportunity of appearing before your committee.

Mr. **English**. Well, I want to thank you for coming, and we appreciate the American Bankers Association representation.

Thank you very much.

The last witness will be Jack K. Perry, the president of the Farm Credit Banks of Wichita in Wichita, KS.

And, Mr. Perry, we want to welcome you before us here today.

Mr. **Perry**. Thank you.

Mr. **English**. I will tell you, as I did Mr. Eatherly, if you would like to summarize your testimony, please feel free to do so, and without objection your full written testimony will be made part of the record.

STATEMENT OF JACK K. PERRY, PRESIDENT OF THE FARM CREDIT BANKS OF WICHITA, WICHITA, KS, AND ON BEHALF OF THE FARM CREDIT COUNCIL

Mr. **Perry**. That's fine.

I am pleased to appear before the committee today on behalf not only of the Farm Credit Banks of Wichita, but the Farm Credit Council.

I think, as you know, the Farm Credit Banks of Wichita cover the States of Kansas, Oklahoma, Colorado, and New Mexico.

I would like to take just a few minutes and hit some of the highlights on what is going on within the Farm Credit System, more particularly what is going on within the Wichita district and talk about a few of the things that we are doing to try to deal with today's farm income crisis.

I think it has been pointed out, that with perhaps the possible exception of the Great Depression, there has not been a period in history where agriculture, or, for that matter, the Farm Credit System has undergone more stress.

It has also been pointed out that the Farm Credit System is limited to lending strictly in agriculture. I don't believe any financial institution can separate itself from the fortunes of its customers.

I firmly believe that the deterioration in agriculture, the lack of income is directly affecting all farm credit institutions.

Collectively, net loans outstanding in the 37 farm credit banks total a little bit more than $75 billion. Those represent loans to nearly a million farmers, ranchers and cooperatives.

The Farm Credit System has roughly one-third of the total U.S. farm debt. I think if you look at the Farm Credit System, the key financial results all underscore the seriousness of the current income situation in agriculture.

Loan losses have increased because of continued depressed financial conditions in the agricultural sector of the economy.

That, in turn, has hampered the borrowers' ability to generate sufficient earnings to meet scheduled principal and interest payments.

Additionally, we have declining farmland values, particularly in the Midwest. That has reduced the collateral value that supports loans.

The most pronounced Farm Credit System difficulties have occurred in the Spokane and Omaha districts, as pointed out in earlier testimony, where problem loans have forced some PCA's into liquidation.

Both of those districts have been forced to seek assistance from the rest of the Farm Credit System. Earlier this year, an approved financial assistance package for the Spokane district totaled about $150 million, most of it an assumption of problem loans rather than cash assistance.

Just last week, the presidents of the System's banks approved a preliminary plan to provide almost $340 million in similar assistance for the Omaha district. That plan must still be presented to the district boards and approved by them.

Fortunately, up to this point, we have been able to avoid problems of that magnitude in the Wichita Farm Credit Banks. At the present time, in the three Wichita banks, we have approximately $6.7 billion in agricultural loans outstanding in the four States that we serve.

Although credit conditions in the district continue to weaken, based on stress identified at the present time, we believe that we still have the financial resources to provide sound credit and financially related services for our farmer, rancher, and cooperative members.

Based on recent studies of the Farm Credit System, including the stress in agricultural loan portfolios, we believe the System, as a whole, currently has the financial resources to deal with our problems.

However, the System's capital that today resides in over 900 institutions, may have to be mobilized and deployed in a more effective manner in the future.

The question of interest rates charged by the System was brought up earlier. I will discuss that hurriedly. I know that it is a point of great interest to you and your constituents and that you receive a lot of mail when interest rates go up, especially when the prime rate is coming down.

As you know, the Farm Credit System borrows the majority of the money that we in turn lend to agriculture; 94 to 95 cents of each dollar of cost is related to the cost of interest on money we borrowed.

The other 5 to 6 cents covers all other costs of operation, both at the banks, PCA's, and the FLBA's.

So, our interest rate is first dependent on the cost of interest. Obviously, if the market, bond market, reacts unfavorably to the stress in agriculture or to the Farm Credit System, our cost of money increases.

Another important effect is the nonperforming loans and acquired properties that we have and the effect that has on our earnings and interest rate.

When a stockholder member, who also in the cooperative happens to be our borrower, can't pay his loan back, or the loan is in foreclosure or is in bankruptcy, the lender does not receive any interest or principal to use to repay what is owed to the investors from whom we originally borrowed the money to make the loan.

The cost of borrowing money continues to the lender.

One place the lender can obtain funds to pay that interest bill is to increase the rate to remaining cooperative members.

And today, that is a two-edged sword. If interest rates are increased further, that creates additional stress to other financially stressed operators that are customers and the downward spiral continues.

As I mentioned, based on the studies that were recently completed, we believe that the Farm Credit System has the financial resources to solve its problems.

I think the System must be willing to change and be able to adapt to a changing environment in order to make sure that those institutions survive so that we can continue to be a provider of financial services to agriculture.

It has been mentioned that the Wichita district, on June 7, announced a continuation of a restructuring program starting the first of the year.

The decision by the Wichita District Board of Directors includes four important points:

All PCA's in our four States will be consolidated into one districtwide PCA.

All existing Federal Land Bank Associations will be consolidated into one districtwide FLBA.

Joint management and staffing will be implemented at all levels, resulting in joint service centers in the district.

We anticipate that we will have 15 administrative service centers. Each one of those administrative centers will have an advisory board of directors chosen from among local stockholders.

Counting all Farm Credit Services offices, we will have 94 service points in four States. Association and bank management structures will be integrated and consolidated, resulting in common bank and association officers and staff. The plan calls for a network of Farm Credit Service centers in most locations where separate FLBA or PCA offices now exist. The restructuring will centralize capital, reduce administrative overhead, and eliminate unnecessary duplication.

We believe those efforts will help us, as a part of the Farm Credit System, keep operating costs down and remain a reliable source of credit in the future, while at the same time improving the quality of service that we provide. We anticipate reducing our operating costs in our four States about 25 percent, in this restructured mode.

The Wichita district farmers, and ranchers, that are stockholders, of PCA's and the FLBA's, will have the opportunity to vote on the merger proposal later this year at special stockholder meetings during November.

Each existing FLBA, each existing PCA stockholder, will have the ability to vote yes or no on the merger proposal.

The target date for completing the restructuring is set for January 1, 1986.

Grassroots input from locally elected association board members has been mentioned. Association boards have been involved in eight work groups that are coming up with recommendations for implementing the restructuring process.

Also included on those work groups are association presidents and some bank personnel. Each association board has at least one member on a work group.

We believe that we are looking at long-term changes that will improve our ability to serve agriculture in these difficult times. We think we are making crucial decisions to better position our institutions to survive the severe financial stress we see right now.

And we believe that the merger proposal that we have submitted to the association boards, that they in turn will submit to their stockholders, will reduce duplication and enhance financial viability. We believe it will put us in a better position to continue to serve agriculture.

I don't think there is any question that the Farm Credit Banks in Wichita and the remainder of the Farm Credit System are committed to fulfill the responsibilities assigned us by Congress. I think without question those responsibilities include the congressional mandate to provide sound, adequate, and constructive credit to American farmers and ranchers at the lowest cost consistent with sound business practices.

The question was raised about forbearance costs and how did you deal with distressed borrowers. We fully endorse and subscribe to the forbearance policy that was endorsed by the Federal Farm Credit Board that basically commits the banks to remain with distressed borrowers so long as there is a reasonable prospect for their financial recovery, and to avoid foreclosure until there is no reasonable alternative course of action remaining. That forbearance policy for the land banks has been in place for well over 65 years and continues today.

One of the alternatives—and there are several—Aggie Mae was discussed briefly. One that we think is similar in some respects has been worked on by the Farm Credit System, and that is the proposed Agricultural Conservation Corporation. It would be a federally chartered, limited life, limited purpose, mixed ownership corporation empowered to buy farm assets at fair market value from willing sellers, which includes lenders or distressed farmers.

Part of the problem we have with real estate in distress is that the owners have difficulty selling it as do the bankers if they own it.

By stabilizing declining farm asset values, we believe it would help provide financially distressed farmers an alternative to foreclosure or bankruptcy, and, in addition, to help conserve fragile land resources. The ACC would provide the first step toward economic recovery for agriculture.

Another plus is that ACC could conceivably accomplish all of this without cost to U.S. taxpayers over the long term.

Additional information is included with the written testimony.

I think that about covers the major points that I wanted to make, Mr. Chairman.

I will be glad to answer any questions.

Mr. ENGLISH. Thank you very much, Jack. I appreciate that.

[The prepared statement of Mr. Perry follows:]

Testimony by Jack Perry, President of the Farm Credit Banks of Wichita

Mr. Chairman, I am Jack Perry, president of the Farm Credit Banks of Wichita. I am pleased to appear before this committee today in behalf of the Farm Credit Council and the ninth farm credit district which includes Kansas, Oklahoma, Colorado and New Mexico. I will address credit conditions within the Farm Credit System nationwide and more specifically within the ninth farm credit district and discuss proactive decisions that we are making to deal with today's farm income crisis.

The Farm Credit System includes Federal Land Banks, making long-term real estate loans through Federal Land Bank Associations (FLBAs); Federal Intermediate Credit Banks which discount notes of Production Credit Associations (PCAs), providing short-term operating loans; and Banks for Cooperatives, who finance farmer-owned cooperative businesses. The system has been a stable source of short- and long-term credit for agriculture for decades. The system has served agriculture well since its original inception in 1916, but it is now facing a crucial period of time. No financial institution can separate itself from the fortunes of its customers. The financial deterioration in agriculture is directly affecting all Farm Credit institutions.

COLLECTIVELY, NET LOANS OUTSTANDING FOR THE SYSTEM TOTAL MORE THAN 75 BILLION DOLLARS TO NEARLY A MILLION OF OUR NATION'S FARMERS AND THEIR COOPERATIVES. THAT AMOUNT REPRESENTS APPROXIMATELY ONE-THIRD OF TOTAL UNITED STATES FARM DEBT.

KEY FINANCIAL RESULTS ALL UNDERSCORE THE SERIOUSNESS OF THE SITUATION. COMBINED NET INCOME IN 1984 FOR THE NATION'S FARM CREDIT BANKS WAS DOWN SIGNIFICANTLY FROM 1983. BOTH THE NUMBER AND AMOUNT OF NET LOANS OUTSTANDING CONTINUE TO DECLINE. NONACCRUAL STATUS LOANS ARE UP SUBSTANTIALLY.

THE DECLINE IN NET INCOME FOR 1984 HAS CONTINUED FOR THE FIRST QUARTER OF 1985. COMBINED NET INCOME OF THE FARM CREDIT BANKS AMOUNTED TO 90.6 MILLION DOLLARS DURING THE QUARTER ENDED MARCH 31, 1985, COMPARED TO 110.4 MILLION DOLLARS DURING THE SAME PERIOD IN 1984.

THE DECLINE IN SYSTEM NET INCOME FOR THE FIRST QUARTER OF 1985 COMPARED TO THE SAME PERIOD IN THE PRIOR YEAR IS PRIMARILY THE RESULT OF INCREASED PROVISION FOR LOAN LOSSES AND REDUCED LOAN VOLUME, PARTIALLY OFFSET BY AN INCREASE IN NET INTEREST INCOME.

Loan losses have increased because of continued depressed financial conditions in the agricultural sector of the economy which have, in turn, hampered borrowers' ability to generate sufficient earnings to meet scheduled principal and interest payments. Additionally, declining farmland values, particularly in the Midwest, have reduced collateral values supporting loans.

The most pronounced difficulties have occurred in the Spokane and Omaha districts where problem loans have been large enough to force some PCAs into liquidation. Both disticts have been forced to seek assistance from the rest of the Farm Credit System. Earlier this year, the system approved a financial assistance package for the Spokane district totaling about 150 million dollars, most of it an assumption of problem loans rather than cash assistance. Just last week, CEOs of the system's banks approved a preliminary plan to provide almost 340 million dollars in similar assistance for the Omaha district...a plan that must still be approved by district boards of directors. Fortunately, we have thus far been able to avoid problems of such magnitude in the Wichita district.

Currently, the three Farm Credit Banks of Wichita have nearly 6.7 billion dollars in agricultural loans outstanding in the four states we serve. The following figures depict our loan portfolio as of June 30, 1985.

SELECTED LOAN DATA	FLB	FICB	WBC
NUMBER LOANS/BORROWERS	64.785	12.061	455
CHANGE FROM PREVIOUS YEAR	(1.764)	(1.889)	(16)
DOLLAR LOAN VOLUME	5.2 BILLION	1 BILLION	422 MILLION
NUMBER DELINQUENT LOANS/BORROWERS	3.813	--	12
NUMBER DELINQUENT PCA LOANS	--	542	--
CHANGE FROM PREVIOUS YEAR	312	37	2
DELINQUENT LOANS ($ MILLIONS)	599.5	78.8	3.5
PERCENT DELINQUENT LOAN VOLUME TO TOTAL NET LOANS			
-CURRENT YEAR	12.42%	7.30%	.84%
-PREVIOUS YEAR	10.80%	5.22%	2.04%

FLB LIQUIDATIONS/FORECLOSURES - 1.293 FOR $279.7 MILLION

FLB ACQUIRED PROPERTY - 311 FOR $55.1 MILLION

ALTHOUGH CREDIT CONDITIONS ARE WEAKENING WITHIN THE DISTRICT, BASED ON STRESS IDENTIFIED AT THE PRESENT TIME, WE STILL HAVE THE FINANCIAL RESOURCES TO PROVIDE SOUND CREDIT AND FINANCIALLY RELATED SERVICES FOR OUR FARMER/RANCHER AND COOPERATIVE MEMBERS. BASED ON RECENT STUDIES OF THE FARM CREDIT SYSTEM, AND THE STRESS IN AGRICULTURAL LOAN PORTFOLIOS, WE BELIEVE THE SYSTEM, AS A WHOLE, CURRENTLY HAS THE FINANCIAL RESOURCES TO DEAL WITH OUR PROBLEMS. HOWEVER, THE SYSTEM'S CAPITAL, THAT TODAY RESIDES IN OVER 900 INSTITUTIONS, MAY HAVE TO BE MOBILIZED AND DEPLOYED MORE EFFECTIVELY IN THE FUTURE.

LET ME DISCUSS, FOR A MOMENT, OUR INTEREST RATES. I KNOW THIS SUBJECT IS OF GREAT INTEREST TO YOUR CONSTITUENTS AND THAT YOU RECEIVE A LOT OF MAIL WHEN AN INTEREST RATE INCREASE IS ANNOUNCED. AS YOU KNOW THE FARM CREDIT SYSTEM BORROWS THE MAJORITY OF THE MONEY THAT WE LEND TO OUR CUSTOMERS. OUR INTEREST RATE IS FIRST DEPENDENT UPON OUR COST OF MONEY. OBVIOUSLY IF THE BOND MARKET REACTS UNFAVORABLY TO THE ECONOMIC SITUATION IN AGRICULTURE OR STRESS ON THE FARM CREDIT SYSTEM OUR COST OF MONEY WILL INCREASE.

MORE IMPORTANT IS THE EFFECT THAT NONPERFORMING LOANS AND ACQUIRED PROPERTIES HAVE ON OUR INTEREST RATE. WHEN A BORROWER CANNOT PAY HIS LOAN OR THE LOAN IS IN FORECLOSURE OR BANKRUPTCY, THE LENDER DOES NOT RECEIVE ANY INTEREST INCOME FROM THE LOAN. HOWEVER, SINCE THE MONEY THAT WAS ORIGINALLY DISBURSED TO THE BORROWER WAS, ITSELF, ALSO BORROWED THE INTEREST COST TO THE LENDER CONTINUES. THE ONLY PLACE THE LENDER CAN OBTAIN FUNDS TO PAY ITS INTEREST BILL IS BY INCREASING THE RATE TO REMAINING BORROWERS.

WE ESTIMATE THAT THE FEDERAL LAND BANK OF WICHITA WILL HAVE ABOUT 500 MILLION DOLLARS OF NONACCRUAL ASSETS BY THE END OF THIS YEAR. THIS ALONE ACCOUNTS FOR ALMOST ONE PERCENT OF THE INTEREST COST TO BORROWERS IN OUR DISTRICT. YET, IF INTEREST RATES ARE INCREASED THIS CAUSES FURTHER STRESS TO OTHER FINANCIALLY STRESSED BORROWERS AND THE DOWNWARD SPIRAL CONTINUES.

WE ARE ATTEMPTING TO DO ALL THAT WE CAN TO STOP THE INCREASE OF NONACCRUAL LOANS BY EARLY IDENTIFICATION OF LOAN PROBLEMS AND WORKING WITH THE TROUBLED BORROWER. IF NONACCRUALS CONTINUE TO INCREASE, THE STRENGTH OF THE SYSTEM COULD BE FURTHER WEAKENED. CONGRESS IS CURRENTLY CONSIDERING PROPOSED AMENDMENTS TO THE BANKRUPTCY ACT. THESE AMENDMENTS ARE SUPPORTED BY CLAIMS THAT THEY WILL HELP ALLEVIATE THE FARM CRISIS AND NOT COST ANY MONEY.

I THINK THESE PREDICTIONS ARE WRONG. THE PROPOSED AMENDMENTS WILL ALLOW THE DEBTOR TO DELAY PAYMENTS FOR ALMOST A YEAR. THESE AMENDMENTS WILL ALSO ALLOW MANY BORROWERS WHO ARE STILL PAYING BUT UNDERGOING MUCH STRESS TO TAKE BANKRUPTCY TO GAIN SOME "BREATHING ROOM".

IF THIS OCCURS WE FEAR THAT THERE WILL BE A DRAMATIC INCREASE IN NONPERFORMING LOANS WITH ALL OF THE CONSEQUENCES THAT I HAVE DISCUSSED. WE URGE YOU TO OPPOSE THOSE AMENDMENTS TO KEEP FROM FURTHER AGGRAVATING THE CREDIT AND INTEREST SITUATION FOR THE REMAINDER OF AGRICULTURE.

THE FARM CREDIT SYSTEM HAS THE FINANCIAL RESOURCES TO SOLVE ITS PROBLEMS. HOWEVER, THE SYSTEM MUST BE WILLING TO CHANGE AND ADAPT TO OUR CHANGING ENVIRONMENT IN ORDER TO SEE THAT OUR INSTITUTIONS SURVIVE.

ELEVEN OF THE TWELVE FARM CREDIT DISTRICTS HAVE RESPONDED TO THIS CHALLENGE BY MOVING TO SOME FORM OF CONSOLIDATED MANAGEMENT AT THE BANK LEVEL. ON JUNE 7, 1985, THE WICHITA DISTRICT ANNOUNCED A CONTINUATION OF THIS TREND BY RESTRUCTURING THE METHOD BY WHICH WE DELIVER CREDIT AND FINANCIALLY RELATED SERVICES TO OUR MEMBERS.

THIS DECISION BY THE WICHITA DISTRICT BOARD INCLUDES THE FOLLOWING FOUR POINTS:

1. ALL EXISTING PCAs WILL BE CONSOLIDATED INTO ONE DISTRICTWIDE PCA.

2. ALL EXISTING FLBAs WILL BE CONSOLIDATED INTO ONE DISTRICTWIDE FLBA.

3. JOINT MANAGEMENT AND STAFFING WILL BE IMPLEMENTED AT ALL LEVELS, RESULTING IN JOINT SERVICE CENTERS IN THE DISTRICT.

4. ASSOCIATION AND BANK MANAGEMENT STRUCTURES WILL BE INTEGRATED AND CONSOLIDATED, RESULTING IN COMMON BANK AND ASSOCIATION OFFICERS AND STAFF.

ONE OTHER DISTRICT HAS ALREADY ANNOUNCED PLANS TO MOVE TO A SINGLE FLBA AND PCA, AND SEVERAL OTHERS ARE STUDYING SIMILAR APPROACHES.

These plans call for a network of Farm Credit Service Centers in most locations where separate FLBA or PCA contact points now exist. The restructuring will centralize capital, reduce administrative overhead, and eliminate unnecessary duplication. These efforts will help the Farm Credit System keep operating costs down and remain a reliable source of credit in the future, while at the same time improving the quality of service we provide to agriculture.

In making the decision to restructure our credit delivery system in the Wichita district, our district board established four basic beliefs. These guiding principles are:

1. The district board believes that a sound and effective Farm Credit System in the district is of immeasurable value to all farmers and ranchers and the entire agricultural and general economy in all four states.

2. The district board believes that the preservation of a viable Farm Credit System in the district is the number one priority.

3. The district board believes that the quality of credit service delivered to the farmers and ranchers is the important issue; not from which institution it is delivered.

4. THE DISTRICT BOARD BELIEVES THAT EMPLOYEES AND DIRECTORS ARE AND WILL CONTINUE TO BE VERY IMPORTANT, BUT SACRIFICES MUST BE MADE AND PERSONAL INTERESTS SUBORDINATED.

WICHITA DISTRICT FARMER/RANCHER STOCKHOLERS OF FLBAS AND PCAS WILL HAVE THE OPPORTUNITY TO VOTE ON THE PROPOSAL LATER THIS YEAR. TARGET DATE FOR COMPLETION OF THE RESTRUCTURING PROPOSAL IS JANUARY 1, 1986.

BECAUSE WE WANT TO INSURE GRASSROOTS INPUT FROM LOCALLY ELECTED FARMER/RANCHER ASSOCIATION BOARD MEMBERS IN DEVELOPING AND IMPLEMENTING THE RESTRUCTURING PROCESS, WE HAVE ESTABLISHED EIGHT WORKGROUPS COMPRISED OF LOCAL BOARD MEMBERS, ASSOCIATION PRESIDENTS, AND BANK PERSONNEL TO SUBMIT RECOMMENDATIONS TO OUR DISTRICT BOARD. EVERY ASSOCIATION BOARD IS REPRESENTED ON AT LEAST ONE WORK GROUP. THE FOLLOWING CORPORATE PRIORITIES HAVE BEEN IDENTIFIED BY THOSE WORK GROUPS TO HELP IMPLEMENT THE RESTRUCTURING DECISION.

1. THE POOLING OF CAPITAL, WHICH WILL RESULT IN A ONE PCA/ONE FLBA CONFIGURATION, MUST BE IMMEDIATELY PURSUED TO MAINTAIN THE VIABILITY OF OUR CREDIT DELIVERY SYSTEM. IN TURN, THE CREATION OF LOCAL SERVICE CENTERS MUST RESULT IN THE BEST USE OF RESOURCES FOCUSED ON SATISFYING CUSTOMER NEEDS.

2. RESOURCES, AUTHORITIES, AND POLICIES MUST RECOGNIZE THAT THE CUSTOMER GENERATES NET EARNINGS. THESE MUST BE MATCHED TO THE JOBS WHICH MUST BE DONE. THE FOLLOWING MUST SERVE AS A BLUEPRINT FOR SUCCESS:

   - DECENTRALIZE AUTHORITY TO A SERVICE CENTER LEVEL, IMPROVE CUSTOMER RESPONSE TIME, AND DELEGATE DECISION-MAKING TO THE POINT OF CUSTOMER CONTACT;

   - MAINTAIN A VEHICLE FOR GRASSROOTS INPUT, IMPROVE CHANNELS BY WHICH INPUT CAN BE PROVIDED TO THE PCA, FLBA, AND DISTRICT BOARDS, AND OPENLY COMMUNICATE IN A POSITIVE MANNER WITH CUSTOMERS, EMPLOYEES, AND PUBLICS; AND

   - FLATTEN THE ORGANIZATIONAL STRUCTURE, REMOVE UNNECESSARY TIERS OF MANAGEMENT, AND REDUCE BUREAUCRATIC CONSTRAINTS.

3. SERVICE CENTERS MUST BE DESIGNED TO BE RESPONSIVE TO THE CUSTOMER AND EMPHASIZE THE FOLLOWING IN THEIR OPERATION:

   - SEGMENT THE MARKET SERVED, IDENTIFY NEEDS, AND TAILOR PRODUCTS AND SERVICES;

   - DIFFERENTIATE PRICING BASED ON SUCH CRITERIA AS RISK, TYPE, AND SIZE;

- Develop new products which enhance profitability and compliment the existing credit product mix;

- Measure results on the basis of a profit-center operation; and

- Allocate scarce resources and focus on activities which result in additional net earnings.

4. The current earnings stress created by nonperforming and nonaccrual loans must be solved. We must quickly focus expertise, drawn from a wide range of personnel, to take action on these threats to our financial viability. Acquired property must be managed and disposed of in an effective and timely manner.

5. Confidence must be earned. People create a viable future by focusing their efforts on doing the right things and solving the right problems. This requires an investment in personnel who can get the jobs done. Excellent employees must be retained, good employees must be developed, and weak employees replaced.

When all of this has been accomplished we will have successfully earned the confidence of our shareholders and investors alike. The end result will be better service to our members and a more viable district.

In today's economic environment, decision-makers often find themselves ignoring the need to make long-term changes while concentrating on day-to-day financial problems. The Farm Credit Banks of Wichita and the Farm Credit System are making the crucial decisions necessary to better position our institutions to survive the severe financial stress now existing in agriculture. Among the benefits of common bank management and a single district-wide FLBA and PCA are improved borrower service, better coordination of lending activities between FLBAs and PCAs, reduced duplication and enhanced viability for dealing with the depressed agricultural economy.

Most customers will still be able to do business with Wichita district farm credit institutions in the same community they do now. Improved service will result by borrowers eventually being able to talk about FLBA or PCA loans in the same office, with the same loan officer. Currently, farmer-rancher members have to visit two different locations and deal with at least two different loan officers in order to obtain both long- and short-term credit. Of the 94 communities which now have PCA or FLBA offices, 41 have both in separate buildings. This is an expensive, unnecessary dupliction, even an inconvenience for borrowers.

THESE CHANGES ARE PRIMARILY DRIVEN BY THE FINANCIAL REALITIES THAT EXIST IN THE DISTRICT BANKS AND ASSOCIATIONS TODAY. SURVIVAL OF THE INSTITUTIONS IS AT STAKE. BUSINESS AS USUAL WILL BE THE DEMISE OF THE INSTITUTIONS. AGRICULTURE IN THE DISTRICT CAN ILL AFFORD TO LOSE ITS OWN CREDIT INSTITUTION. FOR US TO BECOME NONCOMPETITIVE, OR A LENDER OF LAST RESORT, WOULD DO SEVERE DAMAGE TO THE USERS OF AGRICULTURAL CREDIT IN OUR DISTRICT. THEREFORE, THE FARM CREDIT BANKS OF WICHITA HAVE TAKEN THE NECESSARY STEPS TO INSURE THE VIABILITY OF PCAS AND FLBAS IN OUR DISTRICT SO THAT WE CAN CONTINUE TO PROVIDE HIGH QUALITY CREDIT AND FINANCIALLY RELATED SERVICES.

THE WICHITA DISTRICT AND THE FARM CREDIT SYSTEM ARE COMMITTED TO FULFILLING OF THE RESPONSIBILITIES ASSIGNED TO US BY CONGRESS. THESE RESPONSIBILITIES INCLUDE THE CONGRESSIONAL MANDATE TO PROVIDE SOUND, ADEQUATE AND CONSTRUCTIVE CREDIT TO AMERICAN FARMERS AND RANCHERS AT THE LOWEST COST CONSISTENT WITH SOUND BUSINESS PRACTICES. WE ALSO FULLY ENDORSE AND SUBSCRIBE TO THE FORBEARANCE POLICY OF THE FEDERAL FARM CREDIT BOARD WHICH COMMITS US TO REMAINING WITH DISTRESSED BORROWERS SO LONG AS THERE IS REASONABLE PROSPECT FOR THEIR FINANCIAL RECOVERY AND TO AVOIDING FORECLOSURE UNTIL THERE IS NO REASONABLE ALTERNATIVE COURSE OF ACTION REMAINING.

MR. CHAIRMAN, I ASSURE THIS COMMITTEE THAT THE FARM CREDIT SYSTEM HAS AND WILL CONTINUE TO PROVIDE AGRICULTURAL CREDIT IN A SOUND, BUSINESSLIKE MANNER.

As I indicated earlier, the system is reflecting the troubled financial conditions agriculture is experiencing. However, we are taking appropriate actions such as the Wichita district's restructuring decision to deal with the farm income crisis.

One program which we think offers substantial merit is the proposed Agricultural Conservation Corporation (ACC). The ACC would be a federally chartered, limited-life, limited-purpose, mixed ownership corporation empowered to buy farm assets at fair market value from willing sellers, including lenders and distressed farmers. By stabilizing declining farm asset values, providing financially distressed farmers an alternative to foreclosure or bankruptcy, and conserving fragile land resources, the ACC would provide the first step toward an economic recovery for agriculture. Another plus is that ACC could conceivably accomplish all this without cost to United Stated taxpayers over the long term. A briefing of this concept is attached to my written testimony for your information.

Mr. Chairman, I thank you for this opportunity to offer these comments about the Ninth Farm Credit District. I would be happy to respond to your questions.

THE AGRICULTURAL CONSERVATION CORPORATION

A BRIEFING ON PROPOSED LEGISLATION

May 30, 1985

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EXECUTIVE SUMMARY

The serious financial problems faced today by thousands of American farmers are expected to intensify in this decade. According to recently published figures by the U.S. Department of Agriculture:

Of the nation's 2,200,000 farm operations,

- 98,000 are technically insolvent.
- 109,000 have extreme financial problems and are rapidly moving towards insolvency.
- 417,000 have financial problems so severe that they may require some form of debt or asset restructuring assistance in order to help them survive.

Severe erosion of agricultural land values is complicating the financial circumstances of farmers. After reaching a peak in 1981, farmland values have fallen every year since. Projections for 1985 (including a survey by the American Bankers Association indicating an additional decline of 11% this year) show no evidence of a possible reversal in this trend.

A recent study by the Food and Agriculture Policy Research Institute (FAPRI) projects:

- that 3 times the normal amount of farm assets will find their way on to an already glutted market in 1985 and 1986. Without some mechanism in place to absorb such a large increase in property for sale, farmland values could continue a severe downward trend that would have an economic impact far beyond the agricultural industry.
- that an estimated 4% write-off of farm debt is likely and an 8.5% write-off may occur if nothing is done to stabilize asset values.
- a 4% discharge in agricultural debt could result in losses to the general economy of $7.3 billion in personal income, $21.7 billion in lost output, and a loss of more than 500,000 jobs.

The Agricultural Conservation Corporation (ACC)

The Agricultural Conservation Corporation (ACC), a major legislative initiative, has been developed to help address the severe financial plight of farmers and avoid the economic fallout predicted by the FAPRI study. Features of the ACC legislation include:

- It will provide farmers a viable alternative for "asset restructuring" and will serve as a stabilizer to prevent a quick, severe drop in asset values.
- The ACC would serve as a holding tank for land — absorbing the excess supply from the marketplace while serving as a new market for farmers needing financial restructuring.
- The ACC holds potential for soil conservation.
- The ACC would be a federally chartered, limited-life (10 years) corporation.

Agricultural Conservation Corporation

Highlights

The Agricultural Conservation Corporation (ACC) serves three purposes:

- to stabilize farm asset values
- to provide financially distressed farmers a means of restructuring their asset holdings and staying on their land
- to provide a mechanism for the conservation of fragile land resources

Farmers would benefit most from the ACC. Participation allows those producers with a reasonable chance for survival a viable alternative for asset restructuring and protection against losing the farm entirely. Eligibility for these producers is limited to those "...who, with the exception of the sale of farmland assets, have exhausted all reasonable financial alternatives to maintaining a viable farming operation."

To assure responsiveness to local needs and conditions, the ACC board of directors would be advised by local committees on such issues as real estate market conditions, land values and the eligibility of individuals to participate in the program.

To the extent possible, state governments may have the option to participate in the ACC, thereby defraying the cost of the program.

The ACC would be authorized to purchase farm assets from willing sellers including lenders and distressed farmers. Farmers selling property to ACC:

- would retain a right of first rental;
- would be protected against the sale of their property by the ACC for three years; and
- would retain the right of first refusal on the sale of their former property for an additional two year period.

Real estate acquisition would be financed primarily through the issuance of government guaranteed debt by the ACC, not through direct federal funding.

Estimates are that the ACC might eventually hold as much as 2-3 million acres of highly erodible land. Conservation potential may be enhanced by an arrangement with long-term conservation reserves.

According to the FAPRI study about 30% of the farm operators nationwide have debt/asset ratios that exceed the 40% level—a level most frequently cited as the indicator of financial stress.

These same operators hold more than one quarter of the agricultural assets and owe close to two thirds of the debt (see Table 2). As might be expected, financial problems are significantly higher for those under the age of 45.

According to projections made by agricultural economists at Iowa State University, if nothing is done to address sliding asset values, and if returns to equity remain at about their current levels, an average farm operator who today has an equity position in his farm of 50% or less will be technically insolvent within three years. Unfortunately, even USDA projects the trend of low farm income and declining asset values will continue thus hastening the financial decline.

FURTHER SUBSTANTIAL DECLINE IN FARM ASSET VALUES POSSIBLE

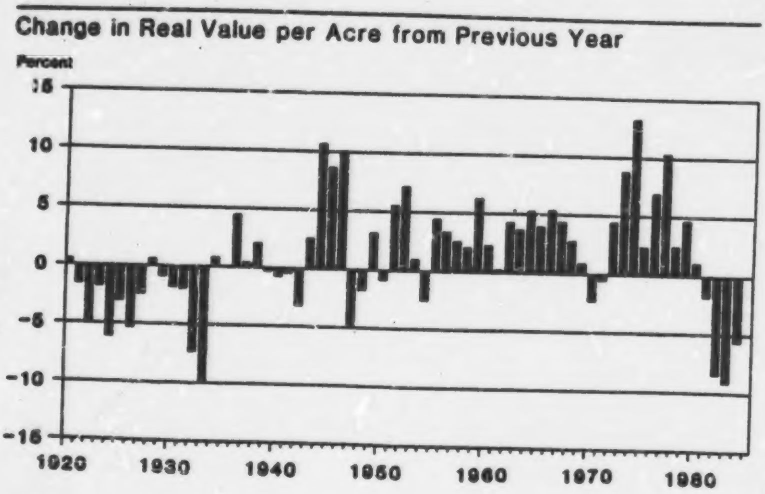
The level of financial stress is complicated by severe erosion of agricultural land values. Not since the 1930's has the United States experienced such a prolonged period of real declines in the value of farmland (see Table 3). After peaking in 1981, farmland values have fallen every year since. Projections for 1985, including a survey by the American Bankers Association indicating an expectation for another 11% decline this year, show no evidence of a possible reversal in this trend.

In some regions, values have fallen 50-60% from their peak and few, if any, buyers can be found. As a result, a major financial restructuring option for hard-pressed farmers has been virtually shut down. Further, the market does not exist for farmers to sell a portion of their assets and thereby reduce their debt.

This impact goes beyond those who, because of depressed commodity prices, have been forced to survive off their land's value. The dramatic decline in land values affects the net worth of all farmers, as well as the tax base of every rural community and school district. In constant 1967 dollars the value of agricultural assets has declined over $80 billion within the last four years.

What looms on the horizon will only make matters worse. According to the FAPRI study, even if farmers are able to maintain current income levels, approximately 10% of farm assets will have to be sold for farmers to service their remaining debt.

TABLE 3


Change in Real Value per Acre from Previous Year
Percent
15
10
5
0
-5
-10
-15
1920
1930
1940
1950
1960
1970
1980

Normally, land markets handle one-third that volume of sales. Should income and asset values decline further, the percentage of farm assets nationwide required to be sold increases to 17%, the study projects.

But in the central region of the nation, where financial problems have recently been most severe and where asset values have declined the greatest, as much as 26% of the farm assets would have to be liquidated under this pessimistic scenario (see Table 4).

The impact of $75 to $120 billion worth of additional farm assets being dumped on an already overloaded marketplace would be devastating. According to the FAPRI analysis, however, the signs are clear that such a scenario is likely to occur.

TABLE 4

Asset Liquidation Required to Service Remaining Debt From Projected Cash Flows with 7.5 Percent Rate of Return (percent)

Region	Assets Sold	Debt Liquidated	Debt Written Off
East	5.0	26.4	5.4
South	5.1	24.9	2.8
Central	15.9	44.5	5.0
West	6.3	23.6	2.5
U.S.[1]	9.9	34.0	3.9

Asset Liquidation Required to Service Remaining Debt From Projected Cash Flows with 6.5 Percent Rate of Return (percent)

Region	Assets Sold	Debt Liquidated	Debt Written Off
East	8.4	35.7	9.0
South	10.2	39.6	6.0
Central	25.9	60.4	11.3
West	10.7	33.2	5.5
U.S.[1]	16.8	48.0	8.5

[1] Weighted using regional distributions of operators, assets, and debts calculated from Economic Indicators of the Farm Sector, State Income and Balance Sheet Statistics, 1983.

IMPACT OF AGRICULTURE'S FINANCIAL STRESS GOES FAR BEYOND THE FARMGATE

The impact of the financial stress in agriculture reverberates throughout the economy. But because so much of the agricultural debt is owed by those farmers experiencing the greatest difficulty (about $140 billion by those leveraged greater than 40%), beyond farmers themselves, the most immediate impact of the current financial crisis will undoubtedly be felt by those who have extended credit to farmers—be they secured lenders or the local fertilizer dealer, seed company, hardware store or relatives of farmers, i.e. the unsecured lenders.

FAPRI attempted to identify the extent of the economic fallout likely to occur should the current situation be left unaddressed. At present, according to FAPRI's most likely scenario, more then 50% of the agricultural debt cannot be fully serviced. For farmers to service their debt at current rates of return, 34% of the agricultural debt would have to be liquidated and about 4% of it will have to be written off altogether. Even if for some reason farm income increases by $7 billion, about 40% ($84.8 billion) of the existing debt could not be fully serviced without substantial debt and asset restructuring taking place.

FAPRI took this analysis one step further and estimated the cascading effect through the economy of a 4% write-off of farm debt. Their conclusion was that it would result in the loss of $21.7 billion in economic output, the loss of $7.3 billion in wages and the loss of more than 500,000 jobs (see Table 5).

TABLE 5

Economic Impact of $8.4 Billion of Discharged Debt in the U.S. Agricultural Production System.

Sector	Employment	Output	Wages
		($ million)	
Agriculture	9,344.6	476.031	98.330
Agri. Services	1,588.9	50.846	15.125
Mining	4,662.9	470.485	84.867
Construction	5,757.8	169.563	124.656
Manufacturing	45,626.5	4,746.766	729.230
Transport. & Public Utilities	20,103.2	1,804.100	427.777
Wholesale ·	201,933.2	7,941.234	3,678.552
Retail Trade	117,749.2	2,278.284	1,038.353
Finance, Ins., & Real Estate	19,031.2	1,330.332	333.553
Services	72,766.4	2,374.673	747.959
Government	2,361.6	108.797	46.319
Totals	500,925.2	21,731.094	7,324.711
Multipliers	2.026	2.597	1.876

The cost to the government of unemployment compensation alone, not to mention lost tax revenues, under this situation would be significant.

Maintaining the status quo also will mean added costs incurred by lenders due to high levels of non-performing loans, inventoried property and loan losses. It will undoubtedly mean interest rates for farmers will remain higher for a longer period of time. Most importantly, it will mean even more family farmers unnecessarily forced out of business. These effects will only further dampen any prospect for recovery in the agricultural economy soon and may likely affect significantly the rate of recovery for the remainder of the economy.

WHAT TO DO?

It is clear that a bold, major initiative is necessary to address the serious situation agriculture faces—one that recognizes, however, that a transition is occurring in agriculture which we should not nor, perhaps, cannot stop. The initiative must recognize that agriculture's transition must be evolutionary, not revolutionary, allowing farmers and the institutions that serve them the time needed to adjust. Finally, whatever approach is taken has to be compassionate toward those who must leave agriculture while being supportive of those on whom agriculture must depend in the future.

Depending on current farm policies or existing institutions to successfully manage or moderate this transition is pure folly. According to the FAPRI projections, using the present price support programs it would take approximately $1 billion of taxpayers' funds to increase farm income by $1.5 billion. USDA estimates commodity prices would have to increase 32 percent to restore profitability to highly leveraged farm operators. At a time when deficit reduction efforts are likely to result in reductions in government price support programs and with most policy makers indicating that commodity prices must decline for U.S. agriculture to be competitive on the world market, the chances of substantial income gains in the near future for a broad segment of agriculture appears slim. Even if an income gain could be attained, the FAPRI study indicates substantial financial problems would remain.

American agriculture must, therefore, find a way to address the other major factor dragging an increasing number of producers towards insolvency at an ever quickening pace — the continuing broad deterioration of farmland values.

The amount of inventory property held by the Farmers Home Administration and private lenders continues to increase. One recent estimate indicates FmHA may eventually hold upwards of 5 million acres. The inability of major agricultural lenders to hold their inventoried property off the market adds further stress to those markets. Additionally, farmers who need to dispose of some of their assets to restructure their finances are finding that to be a near impossible task. It is neither in agriculture's interest nor that of the public to permit this to continue.

THE AGRICULTURAL CONSERVATION CORPORATION

PURPOSE

The Agricultural Conservation Corporation (ACC) would serve three basic purposes:

- to stabilize farm asset values;
- to provide financially distressed farmers a means of restructuring their asset holdings and staying on their land; and
- to provide a new mechanism for the conservation of fragile land resources.

ACC STRUCTURE

The ACC would be a limited life (10 years), federally chartered corporation managed on the national level by an eleven member board of directors, including the Secretary of Agriculture and ten others appointed by the President with the advice and consent of the Senate.

No large bureaucracy would be created to operate the ACC. Instead, local operations would be carried out through contractors such as real estate firms, lending institutions or state governments. To assure responsiveness to local needs and conditions, the board would be advised by local committees on such issues as real estate market conditions, land values and the eligibility of individuals to participate in the program.

ELIGIBLE PARTICIPANTS

The ACC would be authorized to purchase farm assets from willing sellers including distressed farmers and lenders. Farmers selling property to ACC would retain a right of first rental, they would be protected against the sale of their property by the ACC for three years, and they would retain the right of first refusal on the sale of their former property for an additional two year period. The proposed ACC language would define a financially distressed producer of agricultural commodities as one "...who, with the exception of the sale of farmland assets, has exhausted all reasonable financial alternatives to maintaining a viable farming operation."

ACC FINANCING AND OPERATION

Real estate acquisition would be financed primarily through the issuance of government guaranteed debt by the Corporation, not through direct federal funding. No federal funds would be required for the ACC's real estate operations unless it should default on its bonds. In addition, all sellers of property to the Corporation would be required to assist in its capitalization. This would be accomplished through a stock issuance arrangement whereby sellers would receive partial payment for their property in cash and partial payment as stock. As presently envisioned there would be a 15% stock requirement. In the case of property acquired from the government payment would be made 100% in stock. The ACC would serve as a holding tank for land — absorbing the excess supply from the marketplace while serving as a new market for farmers in need of financial restructuring. The ACC would be authorized to acquire property for a five year period only.

Property would be acquired at a value based primarily on an appraisal of its agricultural earnings potential. With the exception of the protection afforded property sold to the ACC by distressed farmers, property could be sold at anytime during the corporation's ten year life. Property might be sold during the first year or not for ten years depending on local market conditions.

Operating expenses, i.e., the day-to-day costs of administering the ACC's activities and servicing the interest payments on outstanding debt, would be generated by leasing acquired property back to farmers or by receiving payments form the government in return for diverting property held by the ACC from production. Any operating expenses that exceed its income would be made up by the government. Current estimates are that government subsidies over the ten year life of the Corporation would be $1.5 billion total. However, in return for this operating assistance, the government would receive first claim to any operating gains and to any gains on the sale of real estate. It has been estimated that a modest $57.00 gain per acre on the land held by the Corporation would result in the government recapturing its entire financial support of the ACC. By getting states directly involved in the ACC financing, the level of "up-front" federal subsidy can be reduced.

CONSERVATION POTENTIAL

The continued intense crop production on fragile lands has led to increased and unnecessary soil erosion and costly efforts to reduce the production of surplus commodities. Estimates are that the ACC might eventually hold as much as 2-3 million acres of highly erodible land. Where appropriate the ACC would enroll its property holding in a long-term conservation reserve program returning that property to more soil conserving uses and, therefore, assisting in the control of soil erosion and in production control efforts. In addition, the Secretary of Agriculture, with the advice of the ACC's local committee structure, would be authorized to declare any qualifying property held by the ACC as fragile land. Any such land would be sold with appropriate deed restrictions or covenants.

HOW WILL FARMERS PARTICIPATE

Farmers would benefit most. With the ACC in place, financially distressed farmers, with a reasonable chance for survival would have a viable alternative for "asset restructuring." The ACC's asset restructuring alternative offers the farmer hard protection against removal from the farm. The ACC essentially becomes a silent financial partner of the farmer investing in the farmer's operation and providing the farmer with an opportunity to make the operation profitable again.

The farmer also will benefit directly from the impact of the ACC on his lender. Because of the high costs associated with nonperforming loans and inventoried property, agricultural lenders are forced to keep interest rates higher than what they might otherwise be. With the ACC in place, lenders will be able to reduce those costs and pass the savings on to their borrowers.

All farmers will benefit from the ACC stopping the downward spike in the value of farmland. Lower land values mean farmers are left with little unencumbered collateral. It is this spike that will unnecessarily force many farmers out of business by making it impossible for them to obtain operating capital.

With the current glut of land on the market and with the current psychology of the marketplace being that farmland values will continue their decline, few buyers can be found. The ACC would undoubtedly reverse this psychology sending a clear signal that land values have bottomed out, thus bringing private investment back into the land markets.

By stabilizing land values the ACC would assist rural areas in stabilizing their tax base and it would help avoid the excessive loss of jobs in agriculture related businesses which will result from major debt write-offs. It would assist lenders by lowering their operating costs and might even prevent some lenders from failing. Finally, it would assist agriculture in making a more orderly transition while buffering many family farmers from unnecessary hardships.

Mr. ENGLISH. We have heard the testimony here today from Mr. Rasmussen about the similarities between 1926 and 1985. We have heard concerns expressed by Jim Eatherly of the American Bankers Association, as far as agriculture is concerned.

And we have also heard that unless there is some action, major action, taken by the U.S. Government, that the turnaround in our economy over the next 2, 3, 4 years does not look very good.

Given all the facts, and if those assumptions prove to be correct, will the Farm Credit Administration require a major infusion of capital from Congress for it to continue?

Mr. PERRY. Not based on the facts that we have today. The Farm Credit Administration, as you know, did a special examination to try to determine the level of stress in the Farm Credit System, especially at the PCA level—to find out how much financial stress we as a lending system could take.

The basic conclusions are that the System has the financial resources, in total, to solve its problems based on today's figures.

If real estate values continue to decline, other asset values fall; if income is not improved, those studies, I think will have to be updated frequently to find out just exactly how much stress the system can take.

It is our opinion, at this point, with the assistance in Spokane, the proposed assistance of Omaha, that the remainder of the system has the ability to stand the stress that we see coming.

Mr. ENGLISH. What kind of stress do you see coming?

Mr. PERRY. Continued loan losses and increased nonperforming loans.

Mr. ENGLISH. What about the farm prices? Do you expect farm prices to improve, or to worsen?

Mr. PERRY. No, sir; we do not see anything in the current programs that would increase income in agriculture, which I think has been pointed out. It is really not a lack of availability of credit in agriculture; it is lack of income to service the debt that is already there.

We do not see anything that will increase income.

Mr. ENGLISH. Do you expect income to worsen?

Mr. PERRY. I think it could.

Mr. ENGLISH. Do you expect it to?

Mr. PERRY. I would hope that it doesn't. As the chairman has pointed out, the wheat crop didn't turn out as well as we'd like to see. I think 1985 income in our four States will be lower than it was in 1984.

Past that, I do not know.

Mr. ENGLISH. Let me put it another way.

Will you be surprised if income lessens?

Mr. PERRY. No, I would not.

Mr. ENGLISH. And will you be surprised if farm prices continue to slide?

Mr. PERRY. No, I would not.

Mr. ENGLISH. And your projections then on what Farm Credit Administration can withstand are all with that in mind?

Mr. PERRY. Yes.

Mr. ENGLISH. That's over a 12-month period of time. That is not over——

Mr. **Perry**. We have projected 1985 will show additional stress, in fact, increased stress until 1986, and beginning to reduce in 1987, on a 3-year projection.

Mr. **English**. Does that mean that things will turn around in 1987?

Mr. **Perry**. Well, a lot of financial stress exists today. Those farms and those farmers that are in serious trouble today, 2 years from now, will not be in business.

Mr. **English**. What percentage of the farmers fit into that category?

Mr. **Perry**. My best guess is 8 to 12, 8 to 15 percent.

Mr. **English**. The merger proposal and the reason that we ask that you be kind enough to tell us what the trouble is, Jack—I appreciate your doing this—is that the merger is looked at as being something of a pilot, by many.

At least, it is being discussed as being a pilot at the Wichita Bank because it is a model that could be followed by other banks through the country. It really has two justifications—and correct me if I am wrong—one is the elimination of duplication of local offices to save operating costs.

The second is the consolidation of capital.

The first question I have is: How much money are you estimating can be saved by the elimination of duplication?

Mr. **Perry**. We are estimating a reduction in total cost for the three banks and the PCA's, FLBA's of $17 million.

Mr. **English**. And the second gets down to items—how many?

Mr. **Perry**. We have 37 Federal Land Bank Associations at the present time and 34 Production Credit Associations. We would have one corporate FLBA, one corporate PCA in the four States. That's where the capital will be combined.

Mr. **English**. Can you break that down, that $17 million, with regard to what you think will be saved?

Mr. **Perry**. I did not bring those figures with me. We were looking at the total organization of the three banks and the two groups of associations.

In addition to those 2 corporate entities, we would have 15 jointly managed administrative service centers, and then the normal complement of full-time service offices. We will have 94 service centers in 4 States.

Mr. **English**. This would just be within the Wichita district?

Mr. **Perry**. Yes.

Mr. **English**. Of the PCA's, how many are facing liquidation? How many are not?

Mr. **Perry**. We have none in liquidation. We have at least half a dozen that are undergoing very severe financial stress, but today they are still financially viable.

We have an equal number of Federal Land Bank Associations that have serious loan losses, but yet are financially viable today.

Mr. **English**. How many dollars do you estimate for PCA's and the Federal land banks would be necessary?

Mr. **Perry**. Necessary for what?

Mr. **English**. Keeping them out of difficulty.

Mr. **Perry**. Without—well, without the merger of associations, without the cost-cutting program that we have gone through, and

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without centralized capital, we could very likely inject up to $40 million in the PCA's. As long as the land bank remains liable for all loan losses, we will not have to inject funds into the Federal Land Bank Associations.

Right now, the Federal Land Bank Associations in the ninth district have no loan loss liability. The bank takes all loan losses.

Mr. **English**. What we have is consolidation, to bail out PCA's?

Mr. **Perry**. No, I don't think so.

The stress study that we did looked at both the land bank associations and the PCA's. There is, I think, an equal amount of stress on both sides.

Within our four States, we estimate that the land bank in Wichita will lose or take loan losses this year of approximately $50 million.

By year end, we think that we will have $500 million in nonperforming loans.

Mr. **English**. But if we are transferring money, we need $40 million for PCA's, and you don't need any for Federal land banks, how can you view that as anything other than the fact that we are consolidating so that we can shift money from Federal land banks into the PCA's.

In other words, the Federal land banks are sacrificing their independence so that there might be some savings gathered together to bail out PCA's.

Mr. **Perry**. Well, as you know, they are two separate financial institutions: Their assets are not going to be commingled. We are looking at ways to increase or obtain the best efficiency we can in all three banks and both groups of associations. Maximum efficiency takes capital one association on each side, with a full complement of service centers, and a cost reduction of 25 percent to keep from getting to the point where we might have to go to the rest of the system and ask for help.

Mr. **English**. The $17 million—is that per year, in total?

Mr. **Perry**. That would be the initial first-year savings. We think that additional savings are possible beyond that.

Mr. **English**. How much a year?

Mr. **Perry**. We think $17 million the first year—we think it will be very difficult, but we are estimating that we can save, over the separate operations we have today, $17 to $20 million a year in operating costs.

Mr. **English**. And your total budget was how much?

Mr. **Perry**. I don't have a list of what the combined budgets would be.

Mr. **English**. How much for Wichita? What's all this $17 million for?

Mr. **Perry**. Now, that includes the associations.

Mr. **English**. Can you give us an estimate, a ballpark number?

Mr. **Perry**. I'd hate to ballpark that number, but I will be glad to send it to you.

Mr. **English**. I would still like some kind of an estimate, and you can update it if it is wrong, or correct it.

Can you give us just a round number? I'm trying to get some idea.

Mr. PERRY. I would imagine combined operating costs, it would be—a budget of somewhere in the neighborhood of $75 million.

Mr. ENGLISH. You've got a lot of new offices out there. Are you planning on selling those? What would you do with them?

Mr. PERRY. The service centers would be headquarters for both the FLBA and PCA headquarters, both at the administrative centers and the service centers.

If there are any surplus offices, yes, they would be sold and converted to cash.

Mr. ENGLISH. Mr. Lightfoot.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Perry, I would like to continue along the line the chairman was on.

As far as the Federal land bank is concerned, did I understand you correctly that you are going to have losses, but you still feel that it's viable.

Is that correct?

Mr. PERRY. At the Federal Land Bank Association level, in our four States, they do not have any direct liability for loan loss. We cancelled our loan loss agreement in 1976—so that all loan losses taken are taken by the Federal land bank in Wichita.

We estimate that the loan losses for that bank in calendar 1985 would be $50 million. In addition, it will potentially have $500 million in nonperforming loans.

Mr. LIGHTFOOT. What's your FLB volume, known volume today, roughly?

Mr. PERRY. Roughly $5 billion.

Mr. LIGHTFOOT. And, say, back in 1979, 1978, somewhere back in there? Do you have that figure at hand?

Mr. PERRY. At about, say, 1980, it would have been in the $4 to $5 billion range.

In the last 18 months, volume has continued to decline rather than increase.

Mr. LIGHTFOOT. You're saying that in the last 5 years you are about where you were?

Mr. PERRY. We have really grown very little, net dollars, in the last 4 or 5 years.

Mr. LIGHTFOOT. Has asset poolings of PCA's or Federal land bank PCA consolidations ever occurred in the past, that you know of?

Mr. PERRY. Yes, it has.

In fact, in the Wichita district, going back say, into the thirties, there were over 500 Federal land bank associations in our 4 States.

That has moved down at the present time to about 37. Every time those mergers occurred, the assets of the merging associations were pooled.

And the same would be true on the PCA side.

Mr. LIGHTFOOT. Did those consolidations achieve what they were intended to do, do you think?

Mr. PERRY. Over time, I think they have.

The whole idea, if we are going to try to be efficient is to minimize our costs: costs that stockholders and members must ultimately pay. Anything that we can do to increase efficiency, maximize the use of capital, and reduce our operating expense has got to be ultimately to the benefit of the people that own the System.

Mr. **Lightfoot**. Are there statutory impediments to doing these consolidations—that is, can you do it on your own or do you need some changes in the laws, or do you want some changes in the law?

Mr. **Perry**. Well, in this case, we are not the only district considering similar proposals. Similar actions are going on in the Spokane District, in the Jackson Federal Intermediate Credit Bank, in St. Louis, Omaha, and St. Paul.

The initial action needs to be approved by the district board and the association board, but ultimately the individual stockholder has to approve the merger. I think that is right and appropriate. Stockholders are the ones that own the System.

Once individual association stockholders have approved the merger plan, then the Governor of the Farm Credit Administration issues the revised charter for the merged association.

I believe that we have the authorities that we need in the merger process.

Mr. **Lightfoot**. Moving on to a little different subject, the restructuring plan you were talking about in Omaha, you know, we think we know, the condition that Omaha is in.

In Wichita, I think the PCA's are in a little better financial condition than they are for the most part, but do you think that restructuring plan is going to work for Omaha, as announced?

Mr. **Perry**. That's the 15 PCA's?

Mr. **Lightfoot**. Right; and the infusion of money from the other district, as they approve it?

Mr. **Perry**. I understand that one of the conditions of the System's assistance is for the Omaha District to move to one corporate PCA and one corporate FLBA.

I believe that is part of the press release. Other districts are making those moves. The requirement within the System, is that each district—PCA's, FLBA's and banks, will do all they can internally before they request help from the System. That is was one of our requirements.

I believe the Omaha plan can work.

Mr. **Lightfoot**. Do you think there are enough dollars there to do it?

Mr. **Perry**. I think there will be.

Mr. **Lightfoot**. I guess, and again, I am not trying to put you on the spot, but we are looking for some answers.

There are rumors that some of the solvent districts of Texas, for example, are very reluctant to help out the Omaha banks.

We have heard from people saying they got in trouble and they should work their own problems out.

Do you think this program is going to be approved?

Mr. **Perry**. I think it will be approved by the districts.

Going back into the seventies, the System approved capital preservation agreements among the 37 banks to assist each other in the event that agriculture had tough times.

That's exactly what this type of situation is all about.

I don't think it is a question that the System would hesitate to ask for Government assistance if it became absolutely necessary.

We have reserves in the System. We think that by using good management, and by mobilizing the reserves, and using them where we can, and when we need to, that we can get by without Government financial assistance.

If agriculture continues to deteriorate, if the lending environment gets worse, if agricultural income does not improve, what we have might not be enough. I can assure you that we are studying the problem, trying to stay well informed.

Mr. Lightfoot. What's the confidence factor in your district, in the system?

Mr. Perry. I think the confidence factor by the majority is still very good. We have had some large loans pay off, not so much because of interest rates, but perhaps because of fall-out from districts where stock has been frozen. A lot of that is misunderstanding.

In Omaha, the only stock that is frozen is in the two PCA's under liquidation. That stock is frozen. What has been done in about 12 or 15 others, is that the automatic class D stock retirement in those PCA's has been terminated.

If the borrower wants to sell his stock, there needs to be somebody to buy it, perhaps another borrower or new customer that needs stock.

In the remainder of their associations, the board of directors makes a monthly determination on the financial condition of the association and retire its ability to the issue stock.

They have a program in Omaha that is based on the financial condition of the association. In two PCA's, Valentine and O'Neill stock indeed is frozen because the offices are being liquidate. We have another group whose financial condition was such that they eliminated the automatic stock requirement.

And we have another group that still has a modified automatic stock requirement that is approved monthly by the local board of directors. We have none of those conditions in place currently, in the Wichita District.

Mr. Lightfoot. You mentioned that two PCA's were being liquidated in Iowa.

Do you know which two they are?

Mr. Perry. Did I say Iowa? If I said Iowa, I meant Nebraska. In Valentine and O'Neill.

Mr. Lightfoot. OK. Good, because that was another one. I had never been told there was one in Iowa being liquidated.

Mr. Perry. The two in Nebraska were the ones I was referring to.

Mr. Lightfoot. I guess it boils down to the Omaha District and yours. But from one of them there are constant complaints that we are hearing from stockholders, that the lack of flexibility on the part of the PCA's trying to work out a plan, a restructural plan—this type of thing.

Why isn't there more interest in trying to do that type of thing? It looks to me like it would be in the best interests of the PCA's and FLBA's to try to work something out.

We know of cases where a restructured program could have, even at foreclosure—conservative PCA's could have walked out with maybe $175,000 to $200,000 without their taking another out. That doesn't look to me like a real bad deal.

Mr. PERRY. It really would be inappropriate for me to say what Omaha is doing, because I don't know what they are doing on the PCA side. I know Wichita——

Mr. LIGHTFOOT. Excuse me. What you were doing in Wichita was better, but we need to know about Omaha.

Mr. PERRY. I would assume that they might have very similar policies. Through loan workout agreements, we are working with Farmers Home Administration, with commercial banks, with insurance companies, with other creditors, with the customer and the stockholders, either trying to sell part of the security or refinance or reamortize debt.

We look at all the options that we have to see if there is any way that we can assist them to survive the crunch they are in.

Mr. LIGHTFOOT. One final question. A PCA loan officer, a former PCA loan officer, attended one of my hearings. He worked 4 years for them in the good times in the seventies. The more loans he put on, the more money he would make.

It used to be "Go, boy, go. Let's see how many loans you can put on. Every time you get another 10 million in our association, we have a party, and you get a free steak dinner out of it."

How do those loan officer incentive policies impact on the current problems we see in the system today?

Mr. PERRY. We use performance appraisal reports for employees, much like any other business would.

The loan volume or the net loan volume is not a criterion.

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. ENGLISH. Thank you.

We have with us today another subcommittee chairman, Mike Synar. Ask any questions you have.

Mr. SYNAR. Thank you, Glenn. I appreciate that.

Jack, welcome again, and let me first of all take this opportunity on behalf of myself and Senator David Boren whom I was with this morning, to thank you for the Wichita Bank's keeping us up to date on what is going on.

I have a number of questions for you that I will ask on behalf of Senator Boren and myself.

Now, as you know, we have seen an increase in the number of foreclosures over the last several years. Can you tell me how many foreclosures the Wichita Farm Credit Banks have initiated this year in Oklahoma?

Mr. PERRY. Not just for Oklahoma. I think the information that I presented shows the number outstanding in four States at the present time.

Mr. SYNAR. Jack, I'm asking for this number because I would like to compare the number of foreclosures in Oklahoma with the three States of Colorado, Kansas, and New Mexico. Could you provide that for the subcommittee?

Mr. PERRY. I certainly can.

Mr. SYNAR. Jack, could you also break that foreclosure down by counties within Oklahoma, as well as all the counties in the other three States.

Can you provide that for the committee? I am asking this for two reasons. First of all, I think it is important to see where the foreclosure activity is occurring.

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And second, there is great concern among the members of this delegation, and I am speaking as an Oklahoman, that there is a lot more foreclosure activity going on in certain counties. What happens in a case like that is that when there is a major foreclosure, this drives the equity down of all the other farmers in that county, and you have a severe domino effect.

Now, whether or not that is the case, we can always find that out by looking at the numbers of the foreclosures occurring in the four states as well as how these foreclosures occurred in the counties.

If you could provide that, that would give us a good indication exactly what kind of activity is going on.

Mr. Perry. We would be happy to provide that.

[See p. 144.]

Mr. Synar. OK, in light of the increased foreclosures I have been listening to your numbers here, and let me see if I have got this correct.

The amount of operating overhead occurring in the Wichita District is about 5 to 6 cents of every dollar. Is that right?

Mr. Perry. That's correct.

Mr. Synar. And you are saying that if you close all these offices that you have recommended from the Wichita office, we are going to save $17 million out of the first year, or hopefully the first year, out of a budget of operating expense of $75 million, which is about a 25-percent saving.

Is that correct?

Mr. Perry. The number that we are working against is a 25-percent reduction, on a $75 million operating budget. I will be glad to provide the actual budget for all institutions.

Mr. Synar. My point is that the $17 million figure—though it sounds nice and all of us would like to save $17 million—that $17 million is less than 5 percent of the budget.

Mr. Perry. That is correct.

Mr. Synar. So, we are talking about really a miniscule number when compared to the whole budget of farm credit in savings. Isn't that correct?

Mr. Perry. That is correct, the remainder of the cost is for borrowed money which we can't control.

Mr. Synar. But would it make any sense to you at a time when farmers and ranchers, beyond question, are having tremendous pressure and stress put on them in trying to meet their loan payments, to put the squeeze on them and ask of them to come up with more collateral?

Does it make sense to you that at a time when it is apparent the Farm Credit Banks need to work with farmers and ranchers—closer than ever before, that the action you would take would be removing the Farm Credit Bank offices so the persons in Muskogee, OK, or Idabel, OK, or Enid, OK, or Taos, NM, would have to come all the way to Wichita, KS, to get service.

Does that seem logical to you?

Mr. Perry. They would still have an office in Enid and in Muskogee, and Idabel.

Mr. Synar. Have you announced where those offices are going to be?

Mr. **Perry**. Yes; there are 15 administrative centers located in the four-State area with a total of 94 service centers in the 4 States.

Mr. **Synar**. What kind of decisions will those offices be able to make in Muskogee and Idabel? They won't be able to make the decisions, in those very tough cases will they? Then would the farmer and rancher be forced to come to Wichita?

Mr. **Perry**. No, 95 to 97 percent of all the credit decisions today are made in those offices. We don't feel that you can centralize the loan-making process. That has to stay in the service center. The things that can be centralized are financial management, the accounting, the data processing, some of the human resources development programs, training. But all of the loan-making functions have got to stay in the county where the farmers and ranchers are. We can't do——

Mr. **Synar**. It has been my experience, and I was in business for some time, that whoever controls the accounting and the data controls the loans.

Mr. **Perry**. Well, in the Land Bank case, the loan is made by the Land Bank Association on the bank's mortgage form. The loan has been always—been made——

Mr. **Synar**. Decisions are still made in Wichita?

Mr. **Perry**. Most loan decisions today are made by the associations.

That has not changed, nor would it change on the PCA's side.

Mr. **Synar**. But back to my original question.

Does it seem logical that at a time when we're looking at ranchers and farmers really having to work hand in hand with their credit institutions, is it in the best long-term interest for the Farm Credit Banks in this stressful period to centralize?

Does it seem to you that the best thing to do, given the miniscule savings, is to centralize?

Mr. **Perry**. Within the program, there is an increase in the number of required credit officers to work with farmers and ranchers.

Mr. **Synar**. Where would they be located?

Mr. **Perry**. In the service centers and the branch offices in Muskogee, Idabel, and Enid, Clinton, wherever.

That's where the local decisions will be made. The credit officers would be there. They will have loan files to give the service that they have always given.

If we can centralize those things, we can reduce costs.

Mr. **Synar**. You keep using the words "service officer"—that is not a loan officer?

Mr. **Perry**. In the service center, it will be a loan officer.

Mr. **Synar**. In other words, if I walk into Muskogee PCA, as my family does so often, that guy right there is going to make the decision on whether I get a loan, not somebody in Wichita?

Mr. **Perry**. That is true.

Mr. **Synar**. He is going to work out all the numbers, and if he decides, we are going to have it.

Mr. **Perry**. Yes.

Mr. **Synar**. Thank you. I would like to go back to the $17 million—if the System can make these savings and still provide service, I think we have got to reduce costs because ultimately farmers and ranchers using the System pay for it.

But, Jack, we're not saving a lot of money here.

You're talking about $17 million which represents, oh, 34 percent of 5 percent, which is 1 cent?

Mr. **Perry**. Well, it is $17 million that the farmers and ranchers in the four States----

Mr. **Synar**. I am not trying to downplay $17 million but as a percentage, it's not much, is it?

Mr. **Perry**. No, it's not when you consider the entire Farm Credit System, but it is 25 percent of the Ninth District operating costs.

Mr. **Synar**. Well, it's kind of like throwing out the baby with the bath water.

When I'm talking about reducing spending to people back home, they say: "Congressman, I know how to balance the budget so we can save money. Cut that damn foreign aid. That's how." Then I ask them, "How much money do you think we spend on foreign aid?"

They answer, "Over 30 cents of every tax dollar, or 50 cents of every tax dollar."

Then I respond by saying, "What if I told you that we spend less than a penny of every tax dollar?"

They say, "Oh, I didn't know that." My point is, that's not going to solve the problem of reducing spending. And neither is centralizing offices going to solve the problem of the Farm Credit Banks of Wichita.

Mr. **Perry**. It will provide the opportunity to stand additional stress in selected offices and we think we can do it at less cost than what we are doing today.

Mr. **Synar**. I will tell my dad that if we consolidate the offices and only get a service officer in the State that they'll quit squeezing us so hard, OK?

Mr. **Perry**. OK.

Mr. **English**. Let me know if they are closed, will you? [Laughter.]

Jack, in looking at that, did you have any estimates on what the transition cost is going to be on closing some of these offices?

Mr. **Perry**. No, I don't. In some of the preliminary work that has been done—we think initially that all of the offices that exist today will still be open, either as a service center or an administrative center. In some cities you have both a PCA and an FLBA. There are 41 cities where you duplicate those facilities.

Mr. **English**. But you would agree that there is going to be a transition cost?

And that, of course, would have to be reduced from that $17 million savings that you are talking about, as well.

Mr. **Perry**. Yes.

Mr. **English**. So, it would actually be less than $17 million as far as the net.

Mr. **Perry**. Well, as we estimated costs, we tried to take out the costs associated with disposing of surplus facilities. The $17 million is a net figure.

Clinton is a good example, where both the land bank association and PCA have a building.

They would ultimately be jointly housed in one building.

Mr. **English**. But you're going to have to build a new building because it is not big enough.

Mr. **Perry**. We are not planning to build any new buildings.

Mr. **English**. But you have built an awful lot of them in recent years. I know that's been a big business, and that is what I kind of wondered about. Those are not built to house PCA's and Federal land banks. They were built to be separate, and the question that arises in my mind is: Are you not going to have some real problems with space if you try to cram everybody into one building?

Mr. **Perry**. As the board members looked at the administrative service center locations, they used criteria based on the size of the town, the office facilities that were there, and whether they were adequate.

We hope we have met those requirements at service center offices. We think we have adequate facilities.

Mr. **English**. In a letter to me dated July 1 that you wrote—and I quote:

"My philosophy is to decentralize as much of the loan-making decisions as the local service center or bank officer can prove capable of handling."

The board of directors are elected by the stockholders of the local associations and they now have loan approval authority.

How can you get any closer to a decentralized loan-making authority?

Mr. **Perry**. In most cases the board of directors in those association have delegated that authority directly to the employees with the exception of prior approval loans.

Mr. **English**. But in effect, they may have delegated it to whom? Would it be to the local manager?

Mr. **Perry**. The local association president, and the credit officers have a credit delegation.

Mr. **English**. That would——

Mr. **Perry**. That would continue.

The only limitation to that is what we call prior approval loan over a certain percentage, say debt-asset ratio, or loan to appraised value. We believe that the delegations to association boards can be increased more than they are today.

Mr. **English**. You mention that they have delegated that authority. They didn't give it up?

Mr. **Perry**. No.

Mr. **English**. And they retained that authority, and should they find that the local president, that they don't approve of the way that he is doing business, they can always recapture the authority?

Mr. **Perry**. And that would be the same in the new configuration.

Mr. **English**. That local board would? There would not be any local board, would there?

Mr. **Perry**. We will have an association board. An association board that will delegate loan authorities to service center managers. It is really no different from what we have today, except instead of having 34 associations, they will have one.

Mr. **English**. OK. They will have one authority over how many States? Four or five?

Mr. **Perry**. Four.

Mr. **English**. Four States.

How many people are going to be on this board?

Mr. **Perry**. One of the work groups is working on that recommendation.

I believe it will be seven board members for the PCA Board and seven for the FLBA Board.

Mr. **English**. You are going to have seven board members--that is not even two per State. What do you figure the chances are that local farmers don't know any of those board members?

Mr. **Perry**. They may not know the board members, but he will know the credit officer in his local office.

Mr. **English**. But the board member is the man that counts, isn't it? Isn't that the guy that keeps the local control? Isn't that how the members are able to have their input? It is supposed to be a cooperative, and this is how the whole thing is supposed to work?

Mr. **Perry**. There will be advisory boards at every service center. It will be much like the association board today, without the same authorities because you also have an association board.

The farmer or rancher that goes in to borrow the money is not going to see the board member anyway.

The person that he wants to see is the loan officer.

Mr. **English**. That is exactly right, but he—that farmer knows who those board members are because he votes for them locally.

And anytime they run into a problem, they have got a serious question in their mind, they can always go to one of those board members, and they can plead their case, and say, "You know what kind of operation I've got out here. You know what kind of a farmer I am. You know what my situation is."

And they can be sure that that local board member then will go in and plead his case.

Mr. **Perry**. I believe they will still be able to do that with the boards at the administrative center.

Mr. **English**. Yeah, but that advisor does not have the authority to say, "Hey, Mr. President, I'm going to yank you up. We are going to put a stop to you. We are going to take over this authority. We are recapturing our authority once again. We have decided that we are going to make this loan to this fellow."

Now, under this new system, there is no way in the world the farmer is going to be able to expect that kind of consideration, is there?

Mr. **Perry**. In the event that there is a disagreement about the loan or about the loan treatment that is being prescribed, the applicant has the opportunity to request an audience with management or the board, and discuss it.

Mr. **English**. The central board?

Mr. **Perry**. Sure.

Mr. **English**. Would he go to Wichita?

Mr. **Perry**. In that case, his request would probably go to Wichita.

Mr. **English**. That sure is not local control, as I see it.

And any kind of local input, now, in connection with the loan-making authority, and you stated in the letter, and I quote: "We can see real advantage in centralizing overall policy direction and management decisions."

That is saying that the Wichita Bank then is going to decide which loans are made. Local managers will know that if they do not tow the line, they are going to be out.

Mr. **Perry**. The lending process, as you mentioned earlier is delegated from the association to the service centers, and it is really up to the association to decide how much delegation is in each place.

We do not see that any of the authorities that the associations currently have in the lending process will be taken away. We think we can enhance the authorities.

Mr. **English**. Explain how you are going to enhance the authority. Take me down step by step how that is going to work, Jack.

Mr. **Perry**. OK.

At the present time, we have delegated authority from the bank to the association board. Suppose that authority is to commit loans up to $500,000, 70 percent of appraised value, or whatever other criteria.

We will develop service centers that have truly capable credit people to make the decisions that need to be made, and make these credit decisions.

Mr. **English**. All right now, explain to me what one of these truly capable credit people look like.

What kind of a man is he?

Mr. **Perry**. Well, it is an experienced loan officer. We have a lot of them now.

Mr. **English**. OK. Does that mean—is he a local resident there? Or some fellow that has moved in from Timbuctoo?

Mr. **Perry**. No, he is a local resident that lives right there.

Through the credit training process, the educational process, we can increase, that commitment, say from $500,000 to $1 million or $1½ million, where all of the credit decisions and the loan decisions can be made right there without coming to Wichita at all. We don't have 95 percent of the loans come in now. We only approve 4 or 5 percent of the loans at the bank level now.

We think we can help improve the service where it is all done locally.

Now we do a certain amount of loan approval at Wichita and have for years.

Mr. **English**. But the decision—the decision on the loan—that is the critical point.

And that is going to be made in Wichita?

Mr. **Perry**. No, the decision on the loan will be made right where the loan application is taken.

Mr. **English**. And who do they appeal to?

Mr. **Perry**. If they have an appeal, they make it to the association.

Mr. **English**. How do the local stockholders have control over the board and over the process?

Mr. **Perry**. Because they are electing the board members.

Mr. **English**. They are electing one board member, perhaps two per State, and at the most, two board members?

Mr. **Perry**. Right. On the association board plus the service center board.

Mr. **English**. Board members that it is highly unlikely they will know, personally.

Mr. **Perry**. That is possibly true.

Mr. **English**. It is likely, isn't it?

What do you figure the chances are that the majority of the people who are going to be voting know who their board members are other than perhaps their name?

I mean, are we going to have to—that will be districts bigger than any congressional district—that is going to be like running for Governor.

Mr. **Perry**. Yes; territories as large as some congressional districts.

Mr. **English**. How much do you figure it is going to cost to run for board member?

Mr. **Perry**. I would——

Mr. **English**. In the whole State of Oklahoma, I think running for Governor now probably costs $1 million or better. Can you figure any better number?

Come up with $1 million—you have to be wealthy then in order to be a board member. Is that going to be one of the criteria?

Mr. **Perry**. No, sir.

If I can use an example in your home country, when we merged the offices of Woodward, Guymon, and Clinton——

Mr. **English**. I am familiar with that process. We'll use Clinton.

Mr. **Perry**. We mailed a ballot to all voting stockholders to vote on the merger. Only a third of the stockholders returned the ballot. At the called meeting of stockholders where they could come and ask questions, as I remember, there were less than 30 people out of approximately 1,000 stockholders.

The majority were more interested in the interest rate, the value of the stock and will I still have local service in Clinton, which they did.

I believe the process will be much the same with the district-wide association. Most of the resistance to mergers that we have had in the past has not come from the ultimate user of the system, the farmers and ranchers, but from employees and association directors.

And that has historically been the case in every merger that I have been involved with, in almost 20 years.

There is a very, very small proportion of the stockholders that vote or come to the meeting.

Mr. **English**. If I remember correctly the directors are stockholders, right?

Mr. **Perry**. That is true.

Mr. **English**. And they are probably the people that are involved in the process?

Mr. **Perry**. That is true.

Mr. **English**. And their problem is they are involved in the loans?

Mr. **Perry**. I would say that is true.

Mr. **English**. So, what you are telling me is that the members don't take enough of an interest in what is going on, given the information that we have sent them, whatever that may be, and that gives us the right to do whatever we want to do?

Mr. **Perry**. At each one of the stockholders' meetings where they will discuss and vote on the merger, they will be provided all the financial information on how their association stands and how it will be as a districtwide association.

Mr. **English**. Let me put it to you this way, Jack. When you sent that out—and I am familiar with what you sent out—I don't believe there was a word said in that notice about "we are going to take away your local control. We will consolidate it so that you won't know your loan officers. We are going to fix it so that you have less of a say in what is going on in this district." Now, there wasn't a word about that, was there?

Mr. **Perry**. No.

Mr. **English**. But that did, in effect, will happen?

Mr. **Perry**. I don't think it would, Glenn.

Mr. **English**. Well, it did on consolidation in western Oklahoma. I said I am familiar with it. I know what happened out there. When do you plan for the stockholders to vote on their plan?

Mr. **Perry**. The individual stockholder meetings in the four States probably will start in November, and be ended by the end of December.

Mr. **English**. And what kind of information are you going to give the stockholders?

Mr. **Perry**. They will receive complete financial disclosure information on the association, on the combined association and the factual information related to the terms of the merger—how the board will be elected. They will get it all.

Mr. **English**. And we will put it in there and tell them that it is going to eliminate your local board.

Mr. **Perry**. That will be in there, yes.

Mr. **English**. Will you say it that candidly?

Mr. **Perry**. I think we will.

Mr. **English**. That bluntly—"This will mean the elimination of your local board. This will mean that you will vote on maybe one or two people in your State."

Mr. **Perry**. There will be advisory boards at the service center. We have a group making recommendations on how those directors are selected. In addition, we have the association board for the district FLBA and district PCA.

Mr. **English**. Now, one thing that I remember in Oklahoma—and this has always been the case out in the country. There has never been anything that has stirred folks up quite as much as consolidation—consolidation of schools, elimination of local counties, court houses, whatever.

In many cases, people have been stirred up at times when we thought there was not anything to get stirred up about, but what you are talking about here is, in fact, a grandiose consolidation plan. You are going to take away their local authority, and we can color it up any way we want to, and we sure cover it in financial reports. I cannot think of anything that will put folks to sleep faster than some of those financial reports.

Look, that is what it comes down to, and at some point folks are going to wake up and learn that, as cooperatives, I no longer have a strong voice and say in the operation of this situation of this System, as I once did.

And that is what it basically boils down to.

And when it comes down to the question of whether that $17 million does the job—now, I want to take another little turn.

Now, taking this, building this super board, if you will, building this super board in Wichita—now a local manager out there, a local president, he's the manager, he is going to want to start being very responsivie, if he isn't already, and I think most of them probably are—very responsive to Wichita, not to his local board or what's left of the local stockholders. He has got to be responsible to it. That is where the power is. That is where the authority is going to be. It is not going to be with the local board—now, that is a fact.

Can you argue that that is not the case, Jack?

Mr. **Perry**. No, I wouldn't.

Mr. **English**. OK. Do we have a plan to back up this one if it fails? Isn't it all kind of confusing? What if the stockholders all vote against you?

Mr. **Perry**. Well, those associations that approved it will continue for it. We have over 10 percent of the FLBA boards that already approved submitting the issue to stockholders even though they weren't asked to address the issue in their board meetings until July or August.

Well over 95 percent, 98, 99 percent of all the mail I've received from stockholders favored the proposal. We are going to go ahead. We're going to centralize capital for those associations that choose to be a part of it, and if they don't, we'll continue to discount PCA loans and we'll continue to work through the FLBA, if they say "no."

But we're going to go ahead as a district association. We have no plan to back up.

Mr. **English**. No, what if all of them say "no"?

Mr. **Perry**. If everybody turned them down, the plan wouldn't work because the stockholders would have had their say and then it wouldn't be approved.

Mr. **English**. What's the option?

Mr. **Perry**. The option is to continue the way we are today.

Mr. **English**. And so are you going to be telling the stockholders, in effect, that you approve this new plan? Or are you going to——

Mr. **Perry**. Well, we're not going to approach it that way. We're basically presenting the plan that we think will work. We looked at several options—4 PCA's, four—in the four States, 15 of each, and with all the programs and all the thought processes we went through, the only way that we could solve the problems that we're trying to solve today, in our four States, is this program we came up with.

Mr. **English**. Let me put it to you another way.

If the stockholders don't approve this plan, will there be PCA's or Federal land banks in Wichita which voted "no"?

Mr. **Perry**. There could be.

Mr. **English**. OK. And that will be made known to the stockholders?

Mr. **Perry**. The financial information that's provided and the explanation, will fully describe the proposed merger.

Mr. English. But that financial report will be, in effect, telling them, "If we don't do something folks, and this is what we recommend, then it's going to go down the tubes."

And that's putting it bluntly, and I'm sure it will be a lot more flowery than that, but isn't that the message that is going to be sent to them?

Mr. Perry. In a selected group of offices, if we do nothing, they'll continue to have serious trouble.

Mr. English. You mentioned earlier that some 8 to 15 percent of the farmers that you've got would likely be gone in 1987, given the financial situation of the farmers.

Was that included in your calculations as an improvement?

Mr. Perry. That 8 to 15 percent is a number that was used by the Kansas City Fed.

Mr. English. Well, I realize that.

Mr. Perry. But I would imagine that our numbers are not too far different from that. When we projected ahead on loan losses, and non-performing loans, the economic environment was factored in. These economic conditions were considered when we calculated the financial stress we face through the remainder of 1985, into 1986 and on into 1987,

Mr. English. Is it correct to say, that with the factors which you have for—in 1987, that one of the factors in that is the elimination of 8 to 15 percent of the farmers?

Mr. Perry. I think that the leveling off which you see would be in the loan loss category and nonperforming loans, We are also looking at what happens within the interest rate market and if there is any opportunity for any increase in farm income.

A part of it would be the attrition of people out of business.

Mr. English. Well, that is what I mean. So in order for the forecast to get better for 1987, the Federal land bank has to lose 8 to 15 percent of its present——

Mr. Perry. No, I don't think that 8 to 15 percent applies directly to the Federal land bank in Wichita. I'm saying, in the area of all agriculture producers, we have a third of the ag debt. I don't know what our percentage would be.

Mr. English. But that is one of your calculations? And we are suggesting in 1987 things will start to level off, instead of being further depressed. And in order for that to happen, one of the calculations would have to come true, because you'd have to lose 8 to 15 percent?

Mr. Perry. No, I wouldn't put the 8 to 15 percent in there with the loans that are in trouble, a certain number of people will find other financial alternatives. Some loans will end up in foreclosure and some will continue to try to restructure their debt so I don't think the 15 percent ties directly back to land bank loans or PCA loans in the four States. But I think that general transition will happen.

Mr. English. Well I guess the question I'm trying to get at, to discover, is if that 8 to 15 percent won't go under, if Congress somehow comes through and the administration decides to do something for the farmers, and they don't go under, then does that mean that the Farm Credit System is not going to be as bright in comparison?

Mr. Perry. If financial assistance is received by agriculture, whether it is through increased income or direct payments or whatever, the numbers in the Farm Credit System will look a lot better than they do today.

Mr. English. Mr. Lightfoot.

Mr. Lightfoot. Thank you. There are two questions. I'll make them short because you have been on the hot seat for quite some time and I haven't had lunch yet.

It goes back to what Glenn was talking about a while ago, Jack, that there is a distinct feeling among many of us that there is a move before us to take this cooperative away from the stockholders and put it in the hands of a few at the top, so to speak. And I'd like to read to you from a letter from Mr. Harling who heads up the Omaha district which was hand delivered to me Saturday after a meeting.

And he said:

> Earlier this year, our associations developed plans to reorganize the 37 PCAs and 31 FLBAs in the 15 Farm Credit Service regions. The chief objective of the plan was efficient and effective delivery of credit services to farmers and ranchers.
>
> We're confident it will let us wipe away years of provincial thinking and utilize human and financial resources for the best interests of system members borrowers.

Isn't he saying that we're going to take it away from you folks? We're going to wipe away those years of conventional thinking which you thought you had control over at the grass[illegible] level?

Mr. Perry. I would interpret it differently [illegible] have sent letters that said somewhat the same thing.

In the System, one of the things that we have got to change and improve is the elimination of the bureaucratic processes we go through.

Mr. Lightfoot. Within the System.

Mr. Perry. Within the System. In-house paperwork. The length of time it takes to make the loan decision. Those are the kind of things that I think John is referring to—that's what I've been talking about. We are trying to improve our delivery system, eliminate the duplication, cut out the excess paperwork, cut out the redtape, make the credit decision, and deliver the product efficently on a timely basis.

I would hope that would not be interpreted as taking the System away from the people that own it.

Mr. Lightfoot. Fortunately or unfortunately, I don't think that's the perception that's being left out there. At least, from what people are telling us.

One final question, I'm still trying to nail down where we are in terms of the plan that came out of St. Louis and where this thing might go and how much confidence is within the System that it will work.

Again, according to Mr. Harling, he says:

> We cannot assume that the system is universally disinterested in infusement of capital into the system. As a matter of fact, the district board officers have encouraged National Farm Credit System leaders to place on the front burner consideration of the infusement of Government capital. It is logical that the impetus should come from the Omaha district because we're at the epicenter of the economic and agricultural depression as indicated in the USDA's land value study and the FDIC's failed bank report. We now believe we've got the attention of farm credit leaders in

> other districts and the system will now discretely put—promptly develop a plan for requesting the infusement of Federal capital in the appropriate time.

As one of those farm credit leaders from another district, do they have your attention?

Mr. PERRY. Yes, they do.

Mr. LIGHTFOOT. And do you think that a plan will be forthcoming requesting forcing infusion of Federal capital?

Mr. PERRY. Yes, I do. Should that become necessary.

Mr. LIGHTFOOT. What would be the straw that broke the camel's back to make that decision?

Mr. PERRY. I think the continued economic depression in agriculture will. As we look at the System, the two districts that perhaps are most stressed are Spokane and Omaha.

Mr. LIGHTFOOT. Right.

Mr. PERRY. There are other banks, including ours, that are feeling the agricultural income pinch.

We believe we have the resources to survive without asking assistance. If we would have continued deterioration, then there is a point where the system can go no further.

Mr. LIGHTFOOT. What's that point?

Mr. PERRY. When the capital resources have been used or projected that they will run out. We're not at that point yet, but we are continuing to update the stress study information to try to keep track of it.

Mr. LIGHTFOOT. OK. You say we're not at that point yet. We're looking at dry weather again in our part of the country. The worst case scenario that we won't get a crop again this year, or a partial crop. Then what kind of a timeline are we on? At least 100 days?

Mr. PERRY. I'd say, by yearend. We'll have that information by then.

Mr. ENGLISH. Jack, you mentioned several times, continuing financial stress. We have continuing financial stress. Is what you're saying, we don't have more farm income, so farmers don't have more money. That is what continued financial stress is? And if they have less—things can get a lot worse.

Mr. PERRY. And a lot quicker.

Mr. ENGLISH. One other thing I was wondering. Before you hand your vote to the stockholders, what would you think about every Member of Congress that's from a rural district, sending out a letter stating:

> I want to make absolutely certain that you understand what your vote is, and that is that there will be no local boards, and that you only have one, maybe two, board members from each State that you are highly unlikely to know. And if you wish to give away that authority, you should vote yes.

Would you have any objection to us using the frank and making sure that every farmer in our district understands exactly what his vote means?

Mr. PERRY. Your constituents will understand that and if you want to send the letter——

Mr. ENGLISH. And you have no objections to that?

Mr. PERRY. No.

Mr. ENGLISH. All right.

There may be some of those sent out, Jack. I'm not kidding you.

Mr. Perry. As long as you are fair about it and show the positive side.

Mr. English. That's the main point. We want to make sure they understand.

[Submissions to additional subcommittee questions follow:]

GLENN ENGLISH, OKLAHOMA, CHAIRMAN
GERALD D. KLECZKA, WISCONSIN
STEPHEN L. NEAL, NORTH CAROLINA
ROBERT E. WISE, JR., WEST VIRGINIA
EDOLPHUS TOWNS, NEW YORK
JOHN M. SPRATT, JR., SOUTH CAROLINA

THOMAS N. KINDNESS, OHIO
JIM LIGHTFOOT, IOWA
JOSEPH J. DIOGUARDI, NEW YORK
JOHN R. MILLER, WASHINGTON

NINETY-NINTH CONGRESS
Congress of the United States
House of Representatives
GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
B-349-C Rayburn House Office Building
Washington, DC 20515

(202) [illegible]

July 25, 1985

Mr. J. K. Perry
President
Farm Credit Banks of Wichita
PO Box 2940
Wichita, Kansas 67201

Dear Jack:

At the subcommittee hearing July 15 I asked you if the Wichita District has any contingency plan if the stockholders of the PCAs and LBAs vote against the proposed merger into one of each for the district.

You answered, in effect, that you expected the stockholders would approve the plan, but, that if one or more of the local organizations failed to do so the merger would continue with those which did approve.

I questioned further about how those local organizations which did not approve the merger would then be treated. You indicated that the current relationship would continue.

Since the hearing I have seen news reports which tell of a memorandum from three attorneys representing the Wichita District to the district outlining a plan to force a merger without approval of the stockholders. If such a memorandum exists, I ask you to submit a copy for the record of the hearing. It would be in order for you to also supply any comments you have regarding the memorandum and its contents, which would also be made a part of the record.

Thank you for your cooperation.

Sincerely,

Glenn English
Chairman

Farm Credit Banks
of Wichita

245 North Waco P.O. Box 2940
Wichita, Kansas 67201-2940
316/266-5100

August 5, 1985

The Honorable Glenn English
Chairman, Government Information,
Justice and Agriculture Subcommittee
U. S. House of Representatives
2235 Rayburn House Office Building
Washington, D.C. 20515

Dear Congressman English:

Enclosed is information which you and your colleagues requested at the July 15 hearing on agricultural credit issues. In addition, we are enclosing supplemental information which responds to other questions which have been asked by some Congressional offices. If there are additional questions which members of Congress have, we will forward our responses as promptly as possible.

Some of the supplemental information is quite basic in nature and is simply provided as background for those who may not be familiar with our credit practices. In addition, we are enclosing a report on the economic impacts of the farm financial crisis from the Food and Agricultural Policy Research Institute (FAPRI) which may be of interest to you.

We are also enclosing a copy of an internal memorandum dated May 15, 1984 which has been badly misinterpreted in press coverage spawned by a group opposed to our restructuring plan. The memo was prepared more than a year ago by legal counsel of the three banks in response to a request for an interpretation of the authorities and responsibilities vested in the banks by Farm Credit acts and regulations. The memo has been shared with the press and misrepresented as part of our current plan for restructuring. It is only a legal memo and is not a statement of bank policy.

Again, please feel free to call on me or my legislative services staff if we can be of help. We would like to work with you in the effort to maintain a viable, dependable credit service to farmers, ranchers and agricultural cooperatives in the future.

Sincerely,

Jack Perry

Jack Perry
President

JP:sh

enclosures

NINTH FARM CREDIT DISTRICT
ENCLOSED INFORMATION

1. Questions and Answers

2. List of Ninth District Federal Land Bank Loans Called for Foreclosure (By County and State)

3. Background Information on Credit Factors

4. Preliminary Summary Report on Economy-wide Impacts of the Farm Financial Crisis

   [NOTE: Item 4 is not reprinted in hearings, but is retained in subcommittee files]

5. Legal Memorandum on Mergers and Territorial Adjustments

RESPONSE TO QUESTIONS REGARDING THE FARM CREDIT SYSTEM

QUESTION: How many loans by county and by state have been called for foreclosure during 1985?

ANSWER: The entire list of Federal Land Bank loans called for foreclosure from January 1985 to June 1985 is attached with a county breakdown. In total, there were 319 in Kansas, 178 in Oklahoma, 157 in Colorado and 26 in New Mexico, for a districtwide total of 680 foreclosures out of 64,785 borrowers. In fact, the list of foreclosures includes loans made for rural housing in addition to the loans for agricultural land. Even with rural home loans, the total foreclosures represent only 1 percent of the total number of land bank borrowers.

QUESTION: What are the 1985 operating expense budgets of Federal Land Bank and Federal Land Bank Associations; Federal Intermediate Credit Bank and Production Credit Associations; and Wichita Bank for Cooperatives?

ANSWER: The 1985 operating expense budgets for the Farm Credit Banks of Wichita and affiliated associations are as follows:

Federal Land Bank*	$16,617,757
Federal Land Bank Associations	20,902,776
Federal Intermediate Credit Bank	10,217,875
Production Credit Associations	21,384,000
Wichita Bank for Cooperatives	6,341,162
Total	$75,463,570

*includes compensation to FLBAs

QUESTION: What are you doing to cut costs?

ANSWER: The Wichita district has been considering and implementing actions where cost containment and income enhancement practices can be achieved. The board of directors has approved a plan which, if approved by stockholders, would restructure associations into one districtwide Production Credit Association and one districtwide Federal Land Bank Association. This will achieve efficiencies and allow the system to better handle the strain of the depressed agricultural economy. Cost-cutting measures are being pursued at the Wichita bank as well. Examples include the following:

a. Sale of 22 bank-owned pooled vehicles;
b. Reduce capital purchases of computer equipment;
c. Reduce selected public relations expenditures;
d. Reduce costs of or eliminate the annual meeting;
e. Suspend mid-year, merit-based salary adjustments for employees;
f. Lower the interest rate paid on FLB borrower future payment funds;
g. Implement strengthened credit practices to minimize nonaccrual loans and acquired property losses;
h. Study the potential advantages of a sale/lease-back of the Farm Credit Banks building;
i. Study the potential advantages of selling the corporate airplane;
j. Study the potential advantages of selling mineral rights; and
k. Evaluate staff requirements in light of the consolidated bank structure.

QUESTION: How much money will you save?

ANSWER: Our goal is to reduce costs at the bank and association level by approximately $17 million, which is roughly a 25 percent reduction of our operating costs.

QUESTION: How many farms has the Farm Credit System acquired in the ninth district?

ANSWER: Surprisingly few, in light of the distressed conditions in our agricultural economy. In total, there are 192 acquired properties in Kansas; 46, in Oklahoma; 107, in Colorado; and 6, in New Mexico.

QUESTION: How many Farm Credit System employees are there in the ninth district?

ANSWER: There are 1,323 total district employees as of early 1985. Of these, 438 are with the Farm Credit Banks (including Wichita Bank for Cooperatives); 418, Federal Land Bank Associations; and 467, Production Credit Associations. Of the 12 farm credit districts, the ninth district ranks sixth in total number of loans, seventh in amount of loans outstanding and seventh in total district employees. So our total number of district employees is comparable and appropriate compared to our loan volume and work load.

QUESTION: What about the bank airplane?

ANSWER: The bank's airplane was purchased in April 1980. It has been a useful tool in achieving the bank's goal of serving rural America. The bank's aircraft is currently utilized for 29 percent of all travel. The majority of travel is to remote areas not accessible by major airlines and greater than 125 miles away. The 1985 budget reflected a total operating cost of $325,965.

If the plane were sold, the bank would receive a one-time financial gain of approximately $600,000. However, the majority of the travel covered by the bank's airplane cannot be covered by commercial airlines and would have to be covered either by a charter plane or automobile at a substantial loss of productive work time. Based on the mileage flown in a typical year, it would be approximately $30,000 per year more expensive to charter a plane rather than maintaining the bank's airplane. The bank is weighing the alternative merits of the long-term savings in time and money versus the one-time financial gain of the sale of the airplane. The matter is still under consideration.

QUESTION: Under the proposed restructuring of the ninth district, how many people will be working in an average-sized office in comparison to the current number?

ANSWER: Currently, an estimated eight to 12 persons are at work in each local association office, depending on the loan volume served by that association. Under the restructuring, it is anticipated that six to 10 persons would be located in each office depending upon loan volume and whether or not that office was also an administrative center.

QUESTION: As part of the restructuring, how many new buildings will be closed down?

ANSWER: When the work groups of local association directors and management were developing recommendations for the locations of credit delivery offices, they considered the type and amount of existing office space in various towns when selecting administrative center offices. The intention is to close duplicate offices wherever it is cost effective to do so.

QUESTION: Under the new ninth district structure, will farmer/rancher board members be compensated for time and expenses?

ANSWER: Compensation for board members will continue in precisely the same manner as is currently in effect. The district board of directors has approved a maximum limit on compensation of $150 per day and some local associations have approved a maximum amount that is less than that. Efficiencies will be gained by structuring the representation through a districtwide association board, and those farmers and ranchers who serve on the districtwide boards deserve compensation for their service.

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
COLORADO

NO.	COUNTY
2	ADAMS
3	ALAMOSA
2	ARAPAHOE
5	BACA
2	CHEYENNE
4	CONEJOS
2	COSTILLA
1	CUSTER
4	DELTA
1	EAGLE
2	ELBERT
1	EL PASO
1	FREMONT
7	GARFIELD
1	JACKSON
3	KIOWA
8	KIT CARSON
1	LA PLATA
2	LARIMER
1	LAS ANIMAS
1	LINCOLN
8	LOGAN
26	MESA
3	MOFFAT
4	MONTROSE
3	MORGAN
4	OTERO
1	PARK
2	PHILLIPS
4	PROWERS
5	PUEBLO
1	RIO BLANCO
6	RIO GRANDE
3	ROUTT
7	SAGUACHE
2	SEDGWICK
3	WASHINGTON
13	WELD
8	YUMA
157	COLORADO

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
KANSAS

NO.	COUNTY
3	ALLEN
3	ANDERSON
2	ATCHISON
1	BARBER
2	BARTON
2	BOURBON
4	BROWN
3	BUTLER
4	CHASE
1	CHAUTAUQUA
4	CHEROKEE
5	CHEYENNE
6	CLAY
3	CLOUD
4	COFFEY
1	COWLEY
6	CRAWFORD
11	DECATUR
5	DICKINSON
2	DONIPHAN
3	DOUGLAS
1	FINNEY
4	FRANKLIN
4	GOVE
12	GRAHAM
3	GRANT
2	GREELEY
6	GREENWOOD
1	HAMILTON
1	HARPER
2	HARVEY
3	HASKELL
2	HODGEMAN
4	JACKSON
13	JEFFERSON
2	JEWELL
4	JOHNSON
4	KEARNEY
2	KIOWA
6	LABETTE
2	LEAVENWORTH
10	LOGAN
4	LYON
1	MCPHERSON
4	MARION
1	MARSHALL
1	MEADE
2	MITCHELL
6	MONTGOMERY
8	MORRIS
3	NEMAHA
3	NEOSHO
2	NORTON

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
KANSAS (cont.)

NO.	COUNTY
2	OSAGE
8	OSBORNE
1	OTTAWA
1	PAWNEE
2	PHILLIPS
14	POTTAWATOMIE
1	PRATT
7	RAWLINS
2	RENO
7	REPUBLIC
2	RILEY
1	ROOKS
1	RUSH
1	SALINE
4	SCOTT
1	SEDGWICK
1	SEWARD
2	SHAWNEE
5	SHERIDAN
7	SHERMAN
3	SMITH
2	STEVENS
4	SUMNER
10	THOMAS
5	TREGO
5	WABAUNSEE
8	WALLACE
7	WASHINGTON
1	WICHITA
3	WILSON
3	WOODSON
319	KANSAS

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
NEW MEXICO

NO.	COUNTY
1	CHAVES
3	CURRY
4	DONA ANA
1	EDDY
1	GRANT
4	GUADALUPE
2	HIDALGO
1	LUNA
1	QUAY
1	ROOSEVELT
1	SAN JUAN
1	SAN MIGUEL
2	SOCORRO
3	TORRANCE
26	NEW MEXICO

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
OKLAHOMA

NO.	COUNTY
8	ALFALFA
3	BEAVER
1	BECKHAM
2	BLAINE
3	BRYAN
1	CHEROKEE
1	COAL
4	COTTON
11	CRAIG
2	CREEK
2	CUSTER
3	DELAWARE
2	ELLIS
18	GARFIELD
1	GARVIN
8	GRANT
2	GREER
1	HARMON
2	HARPER
4	HUGHES
2	JACKSON
1	JOHNSTON
2	KAY
5	KINGFISHER
7	KIOWA
1	LE FLORE
2	LINCOLN
1	LOGAN
1	LOVE
5	MCCURTAIN
2	MCINTOSH
6	MAJOR
5	MAYES
4	MUSKOGEE
2	NOBLE
4	NOWATA
3	OKFUSKEE
2	OKMULGEE
1	OSAGE
7	OTTAWA
1	PAWNEE
4	PAYNE
1	POTTAWATOMIE
2	PUSHMATAHA
1	SEMINOLE
2	SEQUOYAH
1	TEXAS
11	TILLMAN
2	TULSA
1	WAGONER
5	WASHINGTON
1	WASHITA
4	WOODWARD
178	OKLAHOMA

FLB LOANS CALLED FOR FORECLOSURE
1985 (JANUARY - JUNE)
WICHITA DISTRICT

NO.	STATE
157	COLORADO
319	KANSAS
26	NEW MEXICO
178	OKLAHOMA
680	DISTRICT

THE FIVE CREDIT FACTORS THAT LENDERS SEEK IN BORROWERS

I. Definitions and Terms

- A. Assets - Any item of value owned by an individual
- B. Net Worth Statement - A statement listing all items of value (assets), debts, and the owner's share of the business at a certain point in time
- C. Cash Flow - The flow of cash in and out of a business
- D. Cash-Flow Projection - An estimate of future flows of cash in and out of a business
- E. Collateral - Any item of value the borrower pledges to the creditor to be used in the repayment or taken to lend additional support of the repayment to the loan
- F. Liabilities- Debts or cash owed to another business or individual
- G. Net Worth - Owner's share of the business after subtracting the total liabilities from total assets
- H. Operating Expenses - Refers to costs that reoccur every year that are necessary for operating the farm
- I. Real Estate Appreciation - Increase in land value due to inflation

II. Credit Factors that a Lender Seeks in a Loan Applicant

- A. Individual's character
- B. Financial position and progress
- C. Repayment capacity
- D. Purpose of the loan
- E. Collateral

III. Factors that Determine an Individual's Character

- A. Honesty and integrity
    1. Has the individual been honest in past dealings?
    2. Can the individual be trusted?
    3. Have funds been used for the purpose stated when they were borrowed?

B. Farm management ability

1. Does the person keep complete financial statements and farm records?

2. Has the business been profitable during the past?

3. Is there a marketing plan for his crops and livestock?

4. How does production or yield per acre compare to county averages and other area farms?

5. What is the appearance of the operation?

   - Well kept

   - Run down

C. Financial management ability

1. When applying for a loan, has the borrower demonstrated prior planning?

2. Has the individual made purchases that are necessary?

3. Does the individual have a large amount of debt?

4. Have bills been repaid on time?

5. Has the individual reacted to losses or does he continue with "business as usual?"

6. Does the individual have a systematic plan for capital purchases?

D. Health and labor situation

1. How old is the individual?

2. What is the individual's health status?

3. Is there sufficient labor for the operation?

IV. Factors that Determine Financial Position and Progress

A. Lender asks for information regarding every applicant's financial position

1. An inventory of assets and liabilities

2. Lender considers the quality of the assets

B. Lender analyzes the net worth statement

  1. Individual should own at least 50 percent of the operation

  2. Are there any debts that may interfere with the repayment of the loan?

  3. Is the business financially strong enough to absorb losses?

  4. Has the individual been making progress in recent years?

    - Profits

    - Increasing net worth

C. Lender studies the past history of the farm operation to review the performance and look for possible problems in the future

  1. An individual has inherited a large amount of farmland and has had a decreasing net worth since that time

  2. An individual has had a large net worth increase, but it is mostly due to real estate appreciation

V. Factors that Determine Repayment Capacity

A. Repayment capacity shown by developing a cash-flow plan

  1. Look at future projections of income and expenses

  2. Size of the operation

  3. Look at past performance

B. How much total income is the farm generating compared to operating and living expenses?

C. Individual's attitude toward repayment of debts

D. Causes for poor repayment ability of a farm operation

  1. Business too small; can only produce a small profit

  2. Production per unit is low

    - Low crop yields

    - Less than 90% calf crop

    - Less than eight pigs weaned per litter

    (NOTE: Livestock numbers and percentages will vary due to geographic regions)

3. Production costs are high due to
   - High feed costs
   - High labor costs
   - High replacement costs
4. Low price received for goods
   - Poor quality
   - Unfavorable price situation
   - No marketing strategy in effect
5. High overhead cost
   - High interest rate
   - Heavy taxes
   - High maintenance costs on building and equipment
   - Owes excessive amount of money
6. High living costs
   - Over spending
   - Sickness
   - Education of children
7. Borrows funds above ability to repay
8. Overestimates amount of the loan that can be repaid
   - When an individual presents unrealistic information, lender cannot provide sound advise

VI. Analyze the Purpose of Loan

A. What will the borrowed funds be used for?

B. Will the borrowed funds provide a profit in the operation?

C. Is the projected use of funds the best use when considering all options?

D. Loan purposes are generally classified as

1. Necessities - The essential operating expenses required to complete a year's farm operation

   - Seed
   - Fertilizer
   - Fuel
   - Feed

2. Needs - Items that do not directly affect the farm operation, but which are included in the total operating expenses

   - Land payments
   - Taxes
   - Interest on loans
   - Replace worn out equipment

3. Wants - An item the individual can get along without, but which he feels would improve his operation

VII. Factors to Consider for Collateral

A. Most all loans require collateral as security for repayment

1. Livestock
2. Machinery and equipment
3. Land

B. What kind of condition is the collateral in?

C. How old is the collateral?

D. Collateral is generally classified as

1. Primary collateral - Anything that produces income which will be used for the repayment of the loan

   - Livestock
   - Crops
   - Feed
   - Machinery

2. Secondary collateral - Collateral or property that will not be used as repayment, but taken to provide additional support or safety to the loan

   - Land
   - Buildings

DATE: May 15, 1984

TO: Service Coordination Committee

FROM: Ray L. Brummett, General Counsel-FLB
John E. Poulston, General Counsel and Secretary-FICB
David W. Dewey, General Counsel and Secretary-NBC

SUBJECT: MERGERS AND TERRITORIAL ADJUSTMENTS

The Legal Advisory Committee has been requested to respond to four specific questions relating to mergers and territorial adjustments for use in task force meetings. Before we address the questions, some general comments concerning mergers and territorial adjustments may be helpful.

The terms "merger" and "consolidation" are interchangeably used to describe various arrangements by which two or more associations become united in interest. Technically, a merger refers to the absorption of one association by another association with the latter retaining its corporate existence with the added assets and liabilities of the former which ceases to be a legal entity. A consolidation describes the fusion of two or more associations into a new association not previously having a separate identity to which is added the assets and liabilities of the former associations which cease to have an independant existence.

A "territorial adjustment", "realignment" or "transfer of territory" refers to the change in territorial boundary lines of associations the effect of which is to increase or decrease the geographical area in which they are authorized to carry on their operations. It does not contemplate that an association transferring territory goes out of existence as a legal entity but indeed remains in existence as a legal entity and functions as an association until it is later merged or consolidated.

The distinction between a merger and transfer of territory is important in the area of stockholder voting. Farm Credit Regulations provide that a proposal for merger or consolidation shall be submitted to the stockholders of the merging or consolidating associations for approval. Approval shall require a majority vote of the voting stockholders present and those voting by written proxy at a duly held stockholder's meeting of each of the affected associations. In a realignment or adjustment of territories, the stockholders do not vote but those whose operations are located in the geographical area being transferred may elect to have their loans transferred to the transferee association and have their stock exchanged. They also may elect to keep their loan in the original or parent association for normal loan servicing until paid off. However, renewal or additional credit must be with the transferee association.

The specific questions are as follows:

1. Who has the authority (a) to redefine territories and (b) to revoke association charters?

(a) Farm Credit Regulation 1010(f) places the solemn responsibility and duty upon the District Board to provide for the supervision of the associations to assure that authorized services are available to eligible persons in the most effective and efficient manner. This regulation implements Section 5.6 of the Farm Credit Act which empowers the District Board to establish rules and regulations not only governing the banks, but the associations as well. These provisions place in the District Board the authority, as well as the responsibility, to prescribe rules and regulations which may actively promote the most effective and efficient providing of services by associations. Moreover, Farm Credit Regulation 6010 requires District Boards to establish policies and coordinate the activities of the banks and associations in its district to assure that eligible borrowers have access to high quality service. In summary, Congress and the Farm Credit Administration expects the District Boards to prescribe the means and methods for the System to provide the most efficient and highest quality service in a manner that best meets the needs of those eligible to borrow and by eliminating conflicts in responsibility and duplication of services and otherwise promote harmonious relationships, cooperation and greater coordination. Therein lies the authority of the District Board to redefine territories.

(b) Associations are chartered by the Farm Credit Administration which therefore has the authority to issue charters for new associations, amend charters of associations growing out of mergers or territorial adjustments or revoke charters of associations which fail or refuse to conduct its operations in accordance with the Farm Credit Act.

Section 5.18 of the Farm Credit Act grants to FCA the power, function and responsibility to issue, amend and modify association charters where necessary or appropriate to modernize and improve the means for furnishing credit.

Section 1.13 pertaining to FLBAs and Section 2.10 pertaining to PCAs provides that the Governor of FCA shall have the power to direct at any time such changes in the association charters as he finds necessary for the accomplishment of the purposes of the Farm Credit Act which has the effect of revoking the charters of the merged or consolidated associations.

While charters are issued, amended and revoked by FCA, it supports the District Boards in its efforts to establish policies and coordinate the activities of the System designed to provide high quality service and ensure these efforts of the System institutions are without conflict and duplication.

2. Will merger meetings attended by stockholders be necessary?

As mentioned in our introductory comments, the FCA Regulations provide that a proposal for merger or consolidation shall be submitted to the stockholders of the merging or consolidating associations for approval. Approval shall require a majority of the voting stockholders present, and the written proxies of voting stockholders which are presented at a duly held stockholder's meeting of each constituent association.

3. What happens if the stockholders do not accept the recommended territorial boundary?

Before a merger or consolidation proposal is submitted to the stockholders, the boards of directors of the affected associations adopt resolutions approving the proposed change and enter into an agreement setting forth the terms and conditions of the merger or consolidation. During this preliminary process and prior to actual stockholder vote, alleviation of fears and the positive aspects of the proposal must be highlighted and explained to the stockholders including the efficiencies and economies to arise out of the merger and the coordination of FLBA and PCA territories. As a practical matter is is likely that merger proposals will receive stockholder approval through "persuasive" rather than coercive measures.

However, should the merger proposal not receive the required vote and assuming all the required legal and persuasive processes have been followed and strong evidence exists that a merger would improve the quality of service, the economies of operation and provide financial stability, the District Board and the Bank can begin exercising its various indirect or coercive powers to bring about a desireable end and fulfill its supervisory responsibilities. It can call upon the Farm Credit Administration to exercise its unilateral power to modify and amend association charters discussed under question 1(b) above. The Banks can withdraw delegations from the associations, withhold beneficial programs, terminate compensation contracts and when appropriate terminate general financing agreements and transfer loans to an association having the abilities and delegations to provide credit and servicing. The Banks also have removal powers over association boards and CEOs.

4. How will the territorial boundaries recommended by the task forces be implemented?

When the task forces have completed its study and developed a plan for common association territories between FLBAs and PCAs, its recommendations will and must come to the District Board for review, returned by it to the task forces for further study or modification if needed, and ultimately for final approval by the Board. Once the Board has given its final approval, the process of implementation through appropriate Bank personnel and local boards of directors will begin.

cc: M. K. Mathews, Jr.
B. L. Hauenstein
David L. Andra

Donald Myers, Chairman
Jerold Harris
Clarence Biggs
Don Clark
Dennis Nichols
Lee Schnoor

Mr. English. We will recess, subject to the call of the Chair.

[Whereupon, 4:05 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS?

(Part 1)

FRIDAY, SEPTEMBER 27, 1985

House of Representatives,
Government Information, Justice,
and Agriculture Subcommittee
of the Committee on Government Operations,
Washington, DC.

The subcommittee met, pursuant to call, at 10 a.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English and Edolphus Towns.

Also present: Representatives Robert Lindsay Thomas and Mickey Leland.

Staff present: William T. Cherry, professional staff member; Euphon Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

Black Farmers and FmHA Policy

Mr. **English.** The hearing will come to order.

This is the second in a series of hearings by the subcommittee to investigate the status of agricultural financing and of the reaction of Federal agencies under our jurisdiction to changes that are occurring. It was suggested by subcommittee member Ed Towns that this phase of our investigation be scheduled today, and I believe that his suggestion is entirely appropriate for two reasons: The first is obvious. This is Congressional Black Caucus weekend. But 2 months ago, we did not know that the pending business on the House floor would be the farm bill.

If I might, I would suggest that you take part of the time in your visits with Members of Congress to ask them to support provisions in the farm bill which will tend to increase prices. The only solution to a farmer's credit problems is income high enough to service farm debt and leave money for family living.

But that is not the subject of this hearing.

In 1982, the Civil Rights Commission reported that over a near 60-year period that the Nation had lost black farmers at a rate of 250 percent higher than that of white farmers. The report used the period ending with the Agriculture Census of 1978. If you look at the census of 1982, you see that this trend has not changed for the better. From 1978 to 1982 the 16 Southern States which have most of the black farmers lost an additional 4,000 black farmers, or 12 percent, while the number of white farmers increased 3,500 or 0.4 percent.

We all know that since 1982 the alarming slide in farm income and ballooning credit crisis has wiped out many thousands more farmers. This year alone, it appears to be 7 or 8 percent. We won't know until the next Agriculture Census how it all breaks down by location and race and size and type. But we all know it has happened and will continue unless some changes occur—one of which has to be higher farm income.

The 1982 Civil Rights Report put much of the blame on the failure of Farmers Home Administration to provide proper credit to black farmers. Today we hope to learn if this situation has changed.

The Chair recognizes Congressman Towns for any statement he might wish to make.

Mr. Towns. Thank you very much, Mr. Chairman. I am very pleased that the subcommittee was able to schedule this hearing during the Congressional Black Caucus legislative weekend. I want to personally thank the chairman for his efforts in this regard.

As this committee has already learned from previous witnesses, the agricultural financing situation is in a crisis state in America. This situation is even more difficult for America's black farmers because they have faced racial discrimination historically in the credit market. As the financial picture worsened for black farmers, they were forced to become more dependent on the Farmers Home Administration as the lender of last resort. Some of the statistics that we will hear today clearly demonstrate that blacks have not been able to obtain loans even from this agency.

Tragically, this inaction by Farmers Home Administration is contributing to the disappearance of the black farmer in America. In 1982, the Civil Rights Commission Report, "The Decline of Black Farming in America" predicts that at the current rate, there will be no black farmers in the United States by the year 2000. Access to credit is one of the primary factors in black farmers losing their land 2½ times faster than white farmers.

Today, Mr. Chairman, we have a good representation among our witnesses from the Southeastern States of Alabama, Georgia, and North and South Carolina. As well as hearing about the problems black farmers are having with Farmers Home Administration, I hope that we will also learn from some of the witnesses about self-help efforts that they have been able to undertake to assist farmers. Although we began consideration of the farm bill on the House floor yesterday, hopefully some of the testimony we receive today may be useful to us as the consideration of the farm bill continues next week.

Again, thank you, Mr. Chairman. I look forward to hearing the witnesses' testimony.

Mr. English. Well, I certainly would agree with your observations, Mr. Towns, and I would like to state publicly that I want to commend Congressman Towns for his interest in this area. He doesn't live in what would be called a large rural district, but those of us who are from rural areas appreciate his support for agriculture and we also deeply appreciate his underscoring this particular problem. It is one that I think needs to be looked at very carefully.

I ask unanimous consent that a statement of Representative Tom Kindness be inserted in the record at this point.

[The prepared statement of Mr. Kindness follows:]

STATEMENT OF HONORABLE THOMAS N. KINDNESS
ON THE DECLINE OF BLACK FARMERS

September 27, 1985

Over the past few years I have heard and seen stories that the sons and daughters and grandsons and granddaughters of folks who came up from the South to work in the industrial plants of the North are returning to the areas their families left. But what are they going back to do? Their parents and grandparents came North, many leaving farms behind, to find jobs in the plants in the big cities. Most likely the children and grandchildren of those earlier emigrants are returning to the South to work in the new industrial plants that have developed there. It is unlikely that they are returning to the South to farm the land.

Right now is a difficult time for most farmers. A review of the Civil Rights Commission's 1982 report leads one to the conclusion that tough times for farmers generally have been even tougher on black farmers.

Even since interest rates for farmers went up as their export markets vanished the Congress has struggled with both the questions of what farm policies should be pursued and also the capabilities and the effectiveness of the agencies such as the Farmers Home Administration to administer those policies. While I doubt that during that time, that is over the last five years, the Farmers Home Administration could have done much to reverse the decline of farming by black farmers, there are probably ways in which it could have been more helpful - and that goes for black and white farmers alike. I can't help but be reminded of the dismaying realization that we in the Congress have authorized Farmers Home to lend for such developments as racketball courts. I guess that that's what some call rural development these days.

I commend the Chairman for convening this hearing to explore the facts in this area of agricultural policy and administration.

Mr. **English**. Some of our witnesses have been delayed by the weather conditions, so we are going to skip back and forth as far as the schedule is concerned. We are very proud to have a very distinguished list of witnesses and we will lead off today with Dr. Richard Robbins, who is from North Carolina A&T State University.

Dr. Robbins, if you would like to come forward, we will let you leadoff today.

STATEMENT OF DR. RICHARD D. ROBBINS, NORTH CAROLINA A&T STATE UNIVERSITY

Dr. **Robbins**. Thank you.

I am very glad to be here today and share with you some of the experiences that we have had with one of the training programs that we have in place in North Carolina, designed to help the small and minority farmer.

I will deviate just slightly from some of the things I have written because it is much longer than the time allotted. I would like to give just a brief history of how this program came about.

Mr. **English**. If I may interrupt you, I might say this for the benefit of all of our witnesses. If you do have written testimony that you would like to submit for the record, and then care to summarize that testimony, without objection, that full written testimony will be made part of the record.

Dr. **Robbins**. Thank you very much.

I would like to give a brief history of the project. The project began actually in 1983 with a request for a proposal from the Farmers Home Administration. They wanted to help develop a training package that was primarily aimed at the 8th through 12th grade level of education to help farmers in the area of bookkeeping, recordkeeping, and specifically aimed at minority and other small farmers in the State of North Carolina.

During the first phase of this program we did develop the package. The package included written materials, slides, and other demonstration materials for the farmer. This phase lasted about 6 months.

Subsequent to that, we submitted a proposal to implement the package through a test in selected counties in North Carolina. Hopefully the package would be modified as needed based upon the experiences in the counties in which we were operating.

The farmers in North Carolina are virtually no different than the farmers in the other parts of the South. They have lost land at an enormous rate and have gone out of agriculture. A very real concern that we now have is that there are just over 290,000 acres of land that are in the hands of the black farmer. This amount is down from about 1 million acres in the 1950's. Therefore, we are very concerned about that problem.

So we are very pleased to work with this project that is funded by the Farmers Home Administration to provide the training for the small and family size farms in the various problem areas that I will mention below.

The ultimate goal was to enable minority farmers to increase the profitability of their operations and enable them to remain in agriculture through improvements in financial and business management capacity. Specifically, FmHA wanted to develop competency in areas of farm business management, agricultural marketing, coordinated financial statements, for accounting, recordkeeping, and farm production practices.

A brief description of the competency is presented below. I will give them in more detail later.

FARM BUSINESS MANAGEMENT

We expected that each participant would be able to develop and interpret budgets for each farm enterprise that they have on their farm.

We expect that they learn how to use the accelerated system of depreciation for his or her own operation.

We expect them to understand how to utilize break-even analysis for their enterprises in determining where they would operate and that they would understand basic financial ratios that are used in the business.

We expected to expose all producers to the use of farm computers, especially the small microcomputer that might be within the financial reach of some of the farm operators.

In agricultural marketing, we expect each producer to have in writing a formal marketing plan. It would set forth the strategies to be pursued to locate the best available markets for the enterprise he has produced.

Planning marketing to take advantage of price fluctuations over time was also included.

With the coordinating financial statement we expected each producer to be able, without assistance at the end of the program, to complete all three statements. This included the balance sheet, the income statement, and the cash flow projections, and to be able to tie those three statements together.

We expected each producer to be able without assistance to use a detailed farm record book to keep his own records. All the receipts, disbursements would be recorded and no operation would be without a reasonably well kept system of records.

In terms of farm practices, all of the producers would take soil tests, learn production management, and other practices that would be essential to their operation, and we hope that they exhibit a much greater knowledge of the rcommended farm practices.

Most of the effort was spent on the coordinated financial statement portion and the record book portion of the project. The training program to the farmers was presented in two phases. The first phase was largely devoted to group sessions. The major items covered at the beginning from November through January group sessions, were the coordinated financial statements and the farm practices.

Special emphasis was given to balance sheet and cash-flow projections because these were needed in applying for loans and planning operations immediately for 1985 fiscal year.

It was expected that in each county all of the producers would attend at least one group meeting per week and then they would attend additional group meetings, but in small groups such as 4–6 people. Each participant was visited at least once per week by a farm management assistant in the county to further reinforce the concepts that were discussed in the group meetings.

Between January and April, the major items covered were farm accounting and recordkeeping, farm business management and agricultural marketing. The methodology was one of large group meetings followed by a smaller session and individual farm visitations.

The emphasis of the farm visit was to assist the producer with his or her own particular records. It took some time for the producers to grasp the record system that we were using and they needed a good deal of individual instruction and demonstration before they were able to completely keep track of their own farm receipts and disbursements.

During the months of April to September, farmers were busy doing fieldwork. Not very many evenings sessions have been held during this period. However, the project staff spent much time making individual farm visits primarily to help with the recordkeeping that they were doing as they allocated their costs.

During the fall we plan to have both groups sessions as well as individual instruction and special emphasis will be placed on estate planning, tax preparation, and financial planning for the 1986 crop year.

The training program was implemented in five counties, Bertie, Person, Alamance, Roberson, and Sampson. These counties were selected with the assistance of the State and local Farmers Home Administration personnel. We used a criteria of the presence of a large number of limited resource farm population, and the presence of a large number of minority farmers, and the presence of farmers with limited education.

The sites included two that were in the Piedmont area of the State, two in the southern coastal plains and one in the northern coastal plain. Generally most of the farmers are producers of tobacco, the major cash crop. However, peanuts is a large crop in Bertie County. Other crops would include corn, soybeans, wheat and other grains. Hogs are the dominant livestock in all counties except Alamance where milk and beef dominate. Chickens are produced throughout all of the counties but are primarily in Person, Alamance, and Sampson Counties.

We set a goal of 30 participants for each county. They were selected because they needed assistance from Farmers Home Administration, for operating and other loans. A large number, in fact about 90 percent of the farmers are borrowers from the Farmers Home Administration.

Most of the farmers in the program are black, with one exception, that in Roberson County, which contains primarily Indians. The black participants, however, are similar to other black farmers in the State. They are older, have less education, own or rent less land, a pattern very similar to the State as a whole.

The typical black farmer in our program is in his fifties, owns about 70 acres of land, and has 8 or 9 years of education. Thus, even if black farmers received the same profit per acre as other farmers, total income would be less. These farmers are in need of the specific educational skills to help in arithmetic, reading, as well as book keeping and accounting and business management skills.

Briefly, I would like to say that we have had some successes with this program and would like to relate a few. Most of the farmers throughout the State have either kept very poor records or kept no records at all. Thus, we believe that our efforts will be successful even if we only help a few to realize the importance of record keeping for their own particular needs.

Records provide the farmers with information on which production decisions can be made, and enable them to complete tax papers easier, help in planning future activities and making financial decisions. Thus, the project is successful if the farmers only learn how to keep the books.

The preliminary evidence is that they are not only learning to keep records, but they are also learning now to use their records. The following examples are some cases where farmers were able to make decisions.

In Bertie County, several farmers were able to cut fertilizer usage and reduce costs. They realized after they reviewed their records that they could substitute chicken manure from the chicken houses rather than use commercial fertilizer for the corn crop. The amount of fertilizer that was used was reduced even when manure was not used. We found, for example, that they were investing too much in the commercial fertilizer for the extra benefit they received. When we saw these crops in July and August they appeared to be as good as any other corn in the area.

Another farmer decided to rebuild a tractor engine once he viewed his records and saw what it would cost to make repairs versus to purchase a new tractor. Many in fact have overinvested in equipment primarily because of poor recordkeeping.

In Person County, one farmer viewed his records and cash flow statement and saw that he was in deep financial trouble. A local power and light company had offered to purchase some bottom land to be used as part of a reservoir. The land was not cultivated and had little commercial value. However, after looking at the situation, understanding the rights of eminent domain and so on, the farmer finally decided to sell a portion of the land. That gave him the opportunity to settle debts and remain in agriculture and to provide him with the opportunity to sell some waterfront lots for additional income should he choose to do so at a later date. Certainly the examination of his records, and understanding the rights that the power company have to acquire property led him to make a decision that might prove profitable to him in the long run.

In Sampson County the Farmers Home Administration supervisor feels that farmers with operating loans between $10,000 and $25,000 would be the ones that are successful this year. Since these are the borrowers in this county in which our efforts have concentrated, and their knowledge of cash flow statements, monitoring worksheets and recordkeeping will lead to their success. Since implementing our efforts, many farmers have become more cost sensitive, found ways to reduce machines, cut their labor costs etc. Thus we expect the farm profits to increase.

Farmers who are participants in Roberson County also cut back on fertilizer used in their crop production and are now more aware of relationships between yields and fertilizer. They know that increasing revenue from increased yield will increase profits only if the extra fertilizer cost is less than the extra revenue.

Farmers in Alamance County had a slightly different problem. A large proportion work on nonfarm jobs and have less opportunity to cut their costs with their own labor. Here the emphasis has been on comparing profitability of various enterprises. Those enterprises that are losing money should be reviewed for possible elimination or replaced with more profitable ones.

The above cases demonstrate the very positive impact of this particular program. Because of our work, we believe that farmers will be successful and be able to remain in agriculture.

Now, I would like to mention that there are other programs in which we at A&T State University are involved that help small farmers as well. I will just highlight a couple of those programs.

We have programs in agricultural extension as well as agricultural research that are designed to help the farmer overcome his problems. The Agricultural Extension Service sponsors a farm opportunity program in five counties in North Carolina. Small limited farmers face particular problems through education deficiencies, lack of information about marketing, and reluctance to put the farm on a business footing.

A paraprofessional works in each of these counties to train participants in the use of good management practices. Farmers participate in training seminars, workshops, all designed to improve their management skills. And a total of 700 participants receive one-on-one instruction in farm assistance from the agricultural paraprofessionals.

They received the services from the technician on using resources that are available from local agricultural business, agricultural organizations, and other public agricultural agencies. This program has had its successes as well, and in many of these counties farmers have improved their management systems, 30 percent following recommended agricultural practices that have potential for increasing their income.

Several have been introduced to the services of private and public agencies and at least 25 farmers were introduced and started production of nontraditional commodities. In other words, they recognized that in order to remain at a satisfactory level of profits, alternatives to existing enterprises have to be developed, produced, and marketed.

As part of this program, a direct market activity was begun in several counties. Mobile markets were placed in county locations to determine whether or not sufficient demand existed for direct sales of farm produce to consumers.

In at least five counties, the county commissioners have decided to construct a permanent site for the direct marketing project because we found that it was very successful. There is a large demand from the consumer to come to the rural markets for fresh produce. The farmer has received a higher price because he has been able to eliminate the intermediary between the farm gate and the final consumer.

In addition to that, we have several research projects that have been underway, projects involving, for example, land ownership. We have one project which is a land ownership information project. The purpose is to help farmers become more aware of some of the problems and advantages of land ownership. Twenty-six problems were identified by a committee appointed under that project. These projects included better access to credit, property rights, responsibilities, attitudes toward land, and technical assistance to small farmers.

A major portion centered on the property rights, the teaching of people the importance of making wills, how to handle heir property, land owner rights, condemnation and eminent domain, understanding mineral and other rights such as adverse possession. Many of the farmers are now becoming more understanding of the importance of agriculture and the holding of agricultural land.

I would like to conclude by saying that the long run solution to many of the black farmers' problems rests on essentially two premises:

One is that the entire farm economy will need to improve regardless of what we do. If prices remain low for all farmers, black and other minorities will be affected in much the same way. We will have to reduce interest rates, expand international markets, increase farm product prices and seek alternative enterprises that benefit all farmers, including black farmers. Thus, a farm policy that addresses the farm crisis all farmers face is very important.

The second premise is that despite their similarity, small farmers do have certain unique problems. They are older, they are less educated, may have smaller farms, have less investment in the farmland. Further, they grow slower, they exit agriculture faster and do not retain ownership of land once they exit agriculture.

Given their age and education, off farm employment opportunities are much fewer. Thus, programs designed to help these farmers must continue. Black farmers must have access to assistance and financial management, business management, recordkeeping and production practices. The programs in education, extension, and research must not only continue but must be expanded to reach more of the farmers who are in need of this type of assistance.

A question we are often asked is, Can farmers learn the complicated system?

Our experience says that they can learn the system. However, because of the fact they have less education, it takes more time, more individual attention and monitoring of their progress for them to complete the system. This training program has in fact, we believe, achieved this goal, and I would invite any of you to visit our sites and observe our work.

It would be very sad if in 10 or 20 years blacks, whose roots reach back to the land, who after slavery owned millions of acres of land in the post-Civil War era, whose land holdings reached 10 percent of the total by 1950 would have to turn around and fight to acquire some property.

Thank you.

[The prepared statement of Dr. Robbins follows:]

THE TRAINING FOR SMALL FARMERS IN NORTH CAROLINA: A PROJECT FUNDED BY FARMERS HOME ADMINISTRATION

Presented by

Richard D. Robbins, Ph.D.

North Carolina A&T State University
Greensboro, North Carolina

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INTRODUCTION

North Carolina has over 72,000 farmers of all sizes. However, the vast majority will fall into the category of small farmers by almost any definition: 66 percent have less than $20,000 in annual gross sales, while 76 percent have less than $40,000 in sales (1982 Census of Agriculture). Of the farmers who have sales of less than $20,000, 40 percent have sales of less than $2,500. Thus, most farmers in North Carolina fall into the small farm category whether they are defined as those with sales of less than $40,000 or less than $20,000. Black farmers, however, are concentrated in the smaller size groups. Seventy eight (78) percent of the black farmers have less than $20,000 in gross income.

Most farmers are owners; over half are full owner of their farms; 40,886 of all farmers, while 32,500 of the less than $20,000 sales class are full owners. A larger share of farms with less than $2,500 are full owners (Table 1). This pattern did not hold for these with $20,000 to $40,000 in sales. Only 30 percent were full owners, part owners made up a large share of tenancy. Black farmers had about the same proportion of owners as white. Perhaps those farmers in this sales range are attempting to increase income by renting additional land, whereas those in the lower income bracket and part time farmers, do not desire additional land.

TABLE 1. Race and Tenure of Operators, by value of sales in North Carolina, 1982

		VALUE OF SALES		
ITEM	ALL FARMS	$20,000 $40,000	$ 2,500 20,000	Less than $2,500
		(NUMBER OF FARMS)		
All Operators	72,751	$ 7,297	$28,233	$19,845
Full Owners	40,886	2,771	16,998	15,606
Part Owners	23,174	3,104	7,703	3,044
Tenants	8,691	1,422	3,532	1,195
White	67,400	6,682	25,727	18,211
Full Owners	38,070	2,615	15,688	14,382
Part Owners	21,442	2,802	6,882	2,757
Tenants	7,888	1,265	3,157	1,072
Black & Other Races	5,351	615	2,506	1,634
Full Owners	2,861	156	1,310	1,224
Part Owners	1,732	302	821	287
Tenants	803	157	375	123

SOURCE: CENSUS OF AGRICULTURE, 1982

A typical North Carolina farmer is white, slightly over 67,000 of the farmers, or 93 percent (Table 1). In all other sales classes, the same ratio holds.

North Carolina farmers tend a small amount of land, the average farmer had 142 acres in his farm. Those with sales under $20,000 averaged 72 acres, and those with $20,000 - $40,000 in sales, had 139 acres in their farm (Table 2). The size of the farm, therefore, varies directly with the income generated from the farm.

The same is true for farm value. Average farm value in North Carolina is almost $188,000. The smallest farms (under $2,500 in sales) are valued at $85,000. However, average value per acre declines as farm sales increase: if sales are under $2,500, value was $1,500 per acre, and where sales were $20,000 - $40,000, value was $1,200, almost $300 per acre less. Perhaps there is a relationship between off farm employment and size of farm. Small farmers may live near urban areas with off farm opportunities and higher land values.

There is some evidence that small farmers work more off farm than large ones. Of the farmers with less than $2,500 in sales, over half are employed off farm 200 days or more per year. On the other hand, for those who have sales $20,000 - $40,000, only 22 percent worked off farm 200 or more days. (Census of Agriculture, 1982).

The problems facing minority farmers in North Carolina are similar to those facing other farmers: low farm prices,

TABLE 2. FARMS AND LAND IN FARMS AND VALUE IN NORTH CAROLINA

ITEM	ALL FARMS	VALUE OF SALES		
		$20,000 40,000	Less than $20,000	Less than $ 2,500
		(Number of Farms)		
Farms (number)	72,792	7,297	48,078	19,845
Land in Farms (Acres)	10,320,832	1,011,312	3,443,936	1,117,297
Average Size (Acres)	142	139	72	56
Average Value (Farm $)	187,840	170,934	48,128	85,470
Average "per acre $"	1,314	1,200	1,316	1,502

SOURCE: CENSUS OF AGRICULTURE, 1982

high interest rates, declining exports, etc. However, there are some differences. Minority farmers have farms about half (75 acres) the size of all farmers. Thus, faced with similar prices and profits, have less total income. Black farmers are older, 56 years compared to less than 52 for all farmers. Thus alternatives may be fewer.

While blacks have exited agriculture in larger numbers than non-blacks, a real cause of concern is the loss of land. The decline in the land held by blacks is drastic. In 1954, non-whites held 1,085,705 acres, up slightly since 1930 (Census of Agriculture 1954). By 1982 blacks held only 317,000 acres (Table 3). A larger problem then is the loss of land resources held by that black community. Apparently, the profitably of agriculture has declined to the point that minority farmers no longer want to hold their land resources.

As can be observed from the above information, small and minority farmers in North Carolina face many problems as they strive to exist. These problems include the managerial ability to develop and run efficient farm operations, the ability to market efficiently, and financial management. The North Carolina A&T Extension Program and Research program under Evan-Allen funding have attempted to address some of these problems. However, one area that has been difficult is in financial and business management. The Extension Program identified record and bookkeeping, funds management, and the preparation of financial documents as an area of great need

TABLE 3. NUMBER OF ACRES BY RACE

YEAR	ALL OPERATORS		BLACK AND OTHER RACES(a)		BLACKS	
	NUMBER	LAND IN FARM	NUMBER	LAND IN FARM	NUMBER	LAND IN FARM
1982	72,792	10,320,832	5,352	405,756	4,413	319,348
1978	81,706	10,998,652	6,966	490,105	5,820	400,312
1974	91,280	11,243,933	8,605	555,982	N/A	N/A
1954	267,818	18,276,109	65,999	2,641,957	63,388	N/A
FULL OWNER						
1982	40,913	4,278,803	2,817	162,414	2,310	135,748
1978	43,773	4,434,610	3,493	193,448	2,900	162,353
1974	57,004	5,526,452	5,107	282,547	N/A	N/A
1954	129,239	9,816,158	14,123	639,104	N/A	N/A
PART OWNERS						
1982	23,184	5,172,793	1,732	194,336	1,435	144,731
1978	26,235	5,479,502	2,309	229,776	1,970	187,847
1974	22,972	4,598,817	1,981	186,154	N/A	N/A
1954	41,429	3,804,813	8,502	445,501	N/A	N/A
TENANTS						
1982	8,695	869,236	803	49,006	668	38,869
1978	11,698	1,084,540	1,167	66,881	950	50,112
1974	11,304	1,118,664	1,517	87,281	N/A	N/A
1954	57,903	4,176,029	43,333	1,480,955	N/A	N/A

(a) In 1982, 82.4% were Black, 17% Indian, only 28% were other Races

Source Census of Agriculture, 1982, 1954 in North Carolina. These problems combined with the requirement of financial institutions for farmers to provide financial records require that more attention be placed upon teaching these skills to farmers.

THE TRAINING PROJECT

The purpose of the project funded by the Farmers Home Administration is to provide training for small and family sized farmers in the problem areas identified above. The ultimate goal is to enable minority farmers to increase the profitability of their operations, and enable them to remain in agriculture, through improvements in financial and business management.

The specific objective of the training program is to develop competencies in the following subject areas:

1. Farm business management
2. Agricultural Marketing
3. Coordinated Financial Statements
4. Farm Accounting and Record Keeping
5. Farm Practice

A description of the level of competence desired in each major subject area at the end of the training program is detailed below. A complete course description is given in Appendix A.

1. Farm Business Management

   It was expected that each participant would:

   a. Be able to develop and interpret an enterprise budget for each enterprise produced.

b. Know how to use the accelerated system of depreciation for his/her own operation

c. Understand how to utilize break-even analysis for their enterprises

d. Understand basic financial ratios

e. All producers will be exposed to the farm computer.

2. **Agricultural Marketing**

Each producer will have in writing a formal marketing plan. Set forth in it will be the strategies to be pursued to locate the best available markets for the enterprises produced. Planning marketing to take advantage of price fluctuation over time is also included.

3. **Coordinated Financial Statement**

Each producer will be able, without assistance, to complete all three statements by the end of 1985. Each farmer should be able to analyze their balance sheet, income statement, and make cash flow projections.

4. **Farm Accounting and Record Keeping**

Each producer will be able, without assistance, to use a detailed Farm Record Book to keep his own records. All farm receipts and disbursements will be recorded. No farm operation will be without a reasonably well-kept system of records.

5. **Farm Practices**

All producers will take soil tests, learn production management, labor management, and other practices. It is hoped that all producers will exhibit a greater knowledge of recommended farm practices.

The training program was presented in two phases, the first phase of the training was largely devoted to group sessions.

The major items covered at the beginning (November - January) were the Coordinated Financial Statements and Farm Practices. Special emphasis was given to the Balance Sheet and Cash Flow Statements. It was expected that in each county, all the producers would attend at least one group meeting per week. They would then attend one additional meeting for the week, this one in a smaller group setting (4 to 6 people). Each participant was visited at least once per week by the farm management assistant to further reinforce the concepts discussed in the group meetings.

Between January and April 1985, the major items covered were Farm Accounting and Record Keeping, Farm Business Management and Agricultural Marketing. Once again, the methodology was one of larger group meetings, followed by smaller group sessions and individual farm visitation. The emphasis of the farm visit was to assist the producer with his/her own particular records. It took some time for the producers to grasp the record system to be used, and they needed a good deal of instruction and demonstration before they were able to completely keep track of their own farm receipts and disbursements.

During the months of April to September, farmers are busy doing field work. Not many evening sessions were held, however, the project staff spent much time making individual farm visits, primarily to help with record keeping. During the fall, both group sessions are planned, as well as individual instruction. Special emphasis will be placed on estate planning, tax preparations, and financial planning for 1986.

The training program was implemented in five counties, Bertie, Person, Alamance, Roberson, and Sampson. These counties were selected on the criteria (a) presence of limited resource farm population (b) presence of a large number of minority farms, and (c) presence of farmers with limited education,

The sites selected included two in the Piedmont, two in the Southeast Coastal Plains, and one in the Northeastern Coastal Plain (Figure 1). Tobacco production dominates all five counties. However, many producers in Bertie also grow peanuts. Other crops in Bertie, Sampson, and Roberson include corn and soybeans. Person and Alamance are dominated by corn, wheat and other grains. Hogs are a dominate livestock in all counties except Alamance, in which beef and milk dominate. Chickens are produced primarily in Person, Alamance and Sampson counties.

A goal of thirty participants was set for each county. The selections were made with the assistance of state and local FmHA personnel. Many of those selected were those that

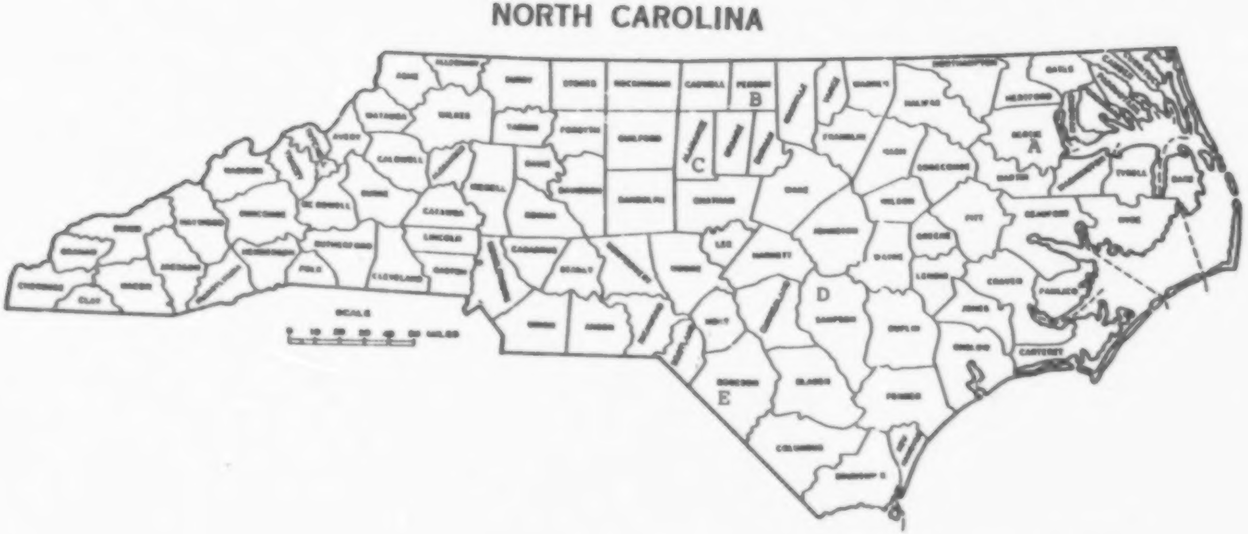
NORTH CAROLINA
A
B
C
D
E
SCALE

FIGURE 1. Location of Sites for Training of Small and Minority Farmers in North Carolina

needed assistance from FmHA for operating and other loans. In all counties, this goal was met or exceeded.

A brief summary of the participants in our training project is presented in Table 4. With the exception of Roberson County, most are Indian. Black participants are older, have less education, and own or rent less land, the pattern above is similar to that of the State overall. The typical black farmer is in his 50's, own 70 acres of land, and has 8 or 9 years of education. Thus, if black farmers receive the same profit per acre as other farmers, total income would still be less. These farmers are in need of specific educational help: to basic skills in arithmetic and reading, as well as skills in bookkeeping, accounting, and business management.

Specific Success Stories

Historically, most farmers have either kept poor records or none at all. Thus, we believe that our efforts to be successful even if we only help a few realize the importance of records for their particular needs. Records provide farmers with information on which production decisions can be made, enable them to complete tax papers easily, help in planning future activities and in making financial decisions. Thus, the project is successful even if farmers only learn how to keep their books. The preliminary evidence is that they are not only to keep records but also

TABLE 4. CHARACTERISTICS OF PARTICIPANTS IN TRAINING PROGRAMS FOR SMALL FARMERS BY COUNTY

	COUNTY				
VARIABLE	BERTIE	ALAMANCE	PERSON	ROBERSON	SAMPSON
Race (Number)					
Black	24	16	23	10	18
White	8	17	17	4	15
Indian	--	--		17	1
Average Age (Years)					
Black	46.5	49.5	52.3	52.6	55
White	45	37.8	39.9	37.2	38.5
Indian	--	--	--	41.9	34 (a)
Schooling (Years)					
Black	9.3	8.5	8.9	9.6	9.4
White	10.1	12.9	12.9	12.3	11.6 (a)
Indian	--	---	---	10.5	12 (a)
Acres					
Black owned	N/A	67.0	73.8	71.5	42.5
Rent		54.3	20.1	94.8	82.2
White owned	N/A	71.9	175.9	52.3	75.2
Rent	N/A	157.9	N/A	61	180.6
Indian owned	N/A	---	---	90.5	404 (a)
Rent				218	200 (a)

(a) Only one observation so it is not a true average
N/A is not available

how to use their records. The following are examples where our project helped farmers make decisions.

In Bertie County, several farmers were able to cut their fertilizer bills and reduce costs. These cost savings were realized after they reviewed their records and decided to use chicken manure rather than fertilizer for the corn crop. Further, the amount of commercial fertilizer was reduced, even when manure was not used. When we saw these crops in July and August, it appeared to be as good as other corn in the area. Apparently, farmers were using too much commercial fertilizer without corresponding increases in yields. Another farmer decided to rebuild his tractor engine once he viewed his records and saw what it would cost him to purchase a new one or take it to the shop for repair. Many farmers in the past may have overinvested in equipment because of poor records.

In Person county, one farmer viewed his records and cash flow statement and saw that he was in financial trouble. Carolina Power and Light Company (CP&L) had offered to purchase some land to be used as part of a resovoir. The land was not cultivated and had little value, however, selling gave him not only the opportunity to settle some debts, but the chance to sell some waterfront land as lots later. He decided that this action was worth considering and he sold the small amount in which the power company wanted. Records and information regarding the rights of power companies to acquire property led him to make a decision that would prove profitable, and enable him to save the rest of his far.

In Sampson County, the FmHA county supervisor feels that farmers with operating loans between $10 - $25,000 will be the ones that are successful this year. Since these are the borrowers in his county in which our efforts have been concentrated, their knowledge of cash flow statements, monitoring worksheets, and recordkeeping, will lead to their success. Since implementing our efforts, many farmers have become more cost sensitive, found ways to reduce machine costs, and have cut their labor costs. Thus, farm profits should increase.

Farmers which are participants in Robeson county have cut back on fertilizer used per acre in crop production and are more aware of the relationships between yields and fertilizer. They now know that increasing revenue from increased yields will not increase profits if the extra fertilizer costs exceeds the extra revenue.

Farmers in Alamance County have slightly different problems. A larger proportion work on non-farm jobs, and have less opportunity to cut cost. Here the emphasis is on comparing profitability of enterprises. Those enterprises that lose money are reviewed for elimination, to be replaced with more profitable ones.

The above success stories demonstrate the very positive impact of this training project. Because of our work we believe that these farmers will be successful, and be able to remain in agriculture.

While this training project is a very important project in regard to the ability for small minority farmers to remain in agriculture, it is by no means the only project here at NC A&T State that focuses upon the small and minority farmers.

We have programs in Agricultural Extension, and Agricultural Research that are designed to help overcome problems that are faced by small farmers. The Agricultural Extension Service sponsor a Farm Opportunity Program in 35 counties in North Carolina. Small and limited resource farmers face particular problems through the education deficiencies, lack of information about marketing and reluctance to put their farm on a business footing. A paraprofessional (agricultural technician) works in each of these counties which helps to train the farm participants in the use of financial and other management practices. Farmers participate in training seminars, workshops, to improve their management skills. In total over 700 participants receive one-on-one instruction in farm assistance from the agricultural technicians. They receive services from the technicians using resources available from local agriculture businesses, agriculture organizations and public agricultural agencies.

The farm opportunities project has had it successes. In many of the counties, farmers have improved their management systems: approximately 30% of the enrollees were following recommended agricultural practices that have potential for increasing their agricultural income. Several farmers were introduced to the services of private and public agencies, and at least 25 farmers were introduced to and started production of non-traditional commodities. In other words they recognized that in order to maintain a satisfactory level of profits, alternatives to existing enterprises had to be developed.

As a part of the farm opportunity program, a direct marketing activity was begun in several counties. Mobile markets were placed in county locations to determine whether or not sufficient demand existed for direct sales of farm produce. The results of this project were very successful. In at least five counties, County Commissioners decided to construct permanent sites for the direct marketing project. In other words, farmers now have a permanent structure where they can take their produce into the local towns for sales directly to the consumer. This enables the consumer to get a slightly fresher product at perhaps below supermarket prices. It also enables the farmer to get a higher price for his products because the "middle man" has been eliminated.

Both of these projects are designed to help improve the production and profitability of farmers. Another project that is designed to help with the land loss problem in agriculture, is the Land Ownership Information Project. This project is also run by the Agricultural Extension Service. The objective of this project is to develop a comprehensive education program for minority land owners covering such topics as: legal education estate planning, Value of land ownership, the importance of having control of land, and retention strategies. It is hoped that the outcome of this project will be an increase in the amount of land resources held by black and minority farmers in the state of North Carolina. A project Advisory Committee composed of seventeen concerned and knowledgable people across the state provide input to the project.

Twenty-six land ownership problems were identified by the committee. These problems included access to credit, property rights and responsibility, attitudes towards land, and a technical assistance toward small farmers. A major emphasis of this project centers on property rights; teaching people the importance of making wills, how to handle heir property, land owner rights, condemnation and eminent domain hearing, understanding mineral rights, and adverse posession. These kinds of topics are designed to educated farmers with the knowledge of what they need to know and matters that affect their land holdings. The other topics would be how to handle land that is unproductive or idle land that is not suitable for crop production. It may be suitable for forest production. what are the returns and possible benefits to using the land for that purpose or if there an alternative to selling of land. This project has been very successful in the involvement of community organizations. Many legal services agencies throughout the state, agricultural teams, church leaders, farm workers, and others are involved. In addition,the North Carolina Association of black Lawyers and the NC Rural Task Force were established. These groups donate their time and effort to help Blacks maintain their property. Educational materials have been developed and distributed through the cooperation of support groups as well as through the media. Attention has been focused not only to the land owners themselves but to the children and family of land owners. We believe the long run benefit is to maintain land in the hands of blacks.

Our research program at North Carolina A&T has focused primarily on improving management and production. Through expanded production and production opportunities, an increase in profits can occur. We realize that there is a fallacy here in that as production increases farmers prices decline and often times lead to an overall decline in total income; nevertheless, we cannot fail to improve the ability of small farmers to increase their production, given they have no impact on price. If total output does not go up we can reduce input cost. In this manner the small farmer can still benefit from the research programs.

Future Needs of Minority Farmers

The programs briefly outlined above are believed to have a positive impact on the future of minority farmers. However, most of these programs have very limited scope, serving a small percent of the farmers in need.

The long run solution to the problems faced by black farmers rest on two premises. One is that the entire farm economy will have to improve. Regardless of our programs, if prices remain low for all farmers, black and other minorities will be affected in much the same way as other farmers. National policies that reduce interest rates, expand international markets, increase farm product prices, and seek alternative enterprises will certainly benefit all farmers, including black farmers. Thus a farm policy that address the farm crises that all farmers face is important.

The second premise is that despite their simularity, small farmers including black and other minority farmers have uniqueness that seperate them. They are older, less educated, have smaller sized farms, and have less investment in their farm land. Further they grow slower, exit agriculture faster, and do not retain ownership of their land. Given their age and education, off farm employment alternatives are fewer. Thus programs designed to help these farmers must continue.

The black farmer must have access to assistance in financial management, business management, record keeping and production practices. The programs in education, extension and research not only must continue, but must be expanded to reach more of the farmers in need of this assistance.

The projects discussed above have had a positive effect on the future of black farmers. The Farmers Home Administration funded project has taught our clientel good record keeping, financial and business management. Most importantly, farmers are now making decisions more wisely, ones that should improve profitability and increase their chances of remaining in agriculture.

The other projects have also had a positive impact, extension and research activities addressed the problems faced by the small and minority farmers. These programs solve problems in production, marketing, and education.

It would be sad that if ten to twenty years hence, blacks whose roots can be traced back to the land since slavery, who owned millions of acres of land in the post civil war era, whose land holdings increased to 10% of total holdings in 1950, then have to fight, as did our urban friends in the 1960's to seek programs to help them obtain ownership of land resources.

APPENDIX A

I. **FARMING ACCOUNTING METHODS AND RECORD-KEEPING**

- A. Importance of Record and Accounts
  - 1. Record-keeping objectives
  - 2. Components of farm records and accounting system
- B. Capital Accounts and Depreciation Schedule
- C. Farm financial Statements
  - 1. Balance Sheet
  - 2. Income Statement
- D. Receipt and Expense Accounts
  - 1. Receipt and expense journal account
  - 2. Single category accounts
  - 3. Cash flow statement
- E. Production and Statistical Records

II. **FARM PRACTICES**

- A. Livestock Production and Management Practices
  - 1. Herd selection
  - 2. Livestock equipment and facilities
  - 3. Animal nutrition and health practices
  - 4. Herd management
- B. Crop Production Practices
  - 1. Soil testing and management
  - 2. Horticultural and agronomic practices
  - 3. Pest, disease identification and control

III. **MARKETING**

- A. The Marketing System
- B. Cooperative Marketing Concepts
- C. Contractural Marketing
- D. Grading, Packing, and Processing Practices
- E. Future Market

IV. **SMALL BUSINESS MANAGEMENT**

- A. Concepts of Management
  - 1. The management functions
  - 2. the management environment
- B. Choosing a Legal Form of Organization
  - 1. Advantages
  - 2. Disadvantages
- C. Understanding financial Statements
- D. Analyzing Financial Statements

1. Ratio analysis
2. Profitability and performance measures

E. Sources of Business finance

F. Tool for Management Decision-Making and Control
   1. Budgeting
   2. Controlling credit
   3. Volume-cost analysis
   4. Inventory control

G. Human Resource Management and Firm Organisation

H. Pricing and Promotion Policies

I. The Management

V. COORDINATED FINANCIAL STATEMENTS FOR AGRICULTURE

A. Introduction To The Coordinated Financial Statement System

B. The Balance Sheet and Statement of Owner Equity
   1. Liabilities and assets
   2. Statement of owner equity

C. The Income Statement
   1. Net income computation (cash or accrual basis)
   2. Structure of income statement

D. Statement of Change In Financial Positions
   1. Flow statement
   2. Structure and uses of the statement

E. The Cash Flow Statement
   1. Purpose and perspective
   2. Structure of cash flow statement

Mr. ENGLISH. Thank you very much, Dr. Robbins. It is a very fine statement and I would wholeheartedly agree with you that all farmers must be very careful as far as recordkeeping and understanding what is exactly taking place within their financial operation. There is, however, a very thin line that one crosses between doing what is necessary to maintain good records and having a good clear understanding of what is taking place within a farming operation, and a requirement that would discourage people from participating in certain programs. And what I am speaking of, of course, is the coordinated financial statement by Farmers Home Administration.

Up until recently, they had a four-page application that a farmer would fill out and it seemed to work very well. I took note of the fact that a part of the training program relates to the coordinated financial statement. If you were a farmer who had not gone through this training program, and simply went in to apply for a loan from the Farmers Home Administration and they handed you that whatever—21-22 pages—and say here it is, take it home and fill it out, what do you figure the chances are of a farmer succeeding in completing that application to the point that the application would be seriously considered, No. 1.

And No. 2, what are the chances the farmer just simply would throw up his hands and say I can't make heads or tails out of this stuff and simply drop the whole application and any hopes of receiving financing he might need to help his farm?

Dr. ROBBINS. I think the chances are good that he may do both, throw up his hands and give up.

However, our concern has been trying to teach these types of skills. This project is certainly one demonstration which shows that despite the limited education, with sufficient one-on-one instruction, farmers are in fact able to do it.

There are programs that exist in just about all of the counties that help with the financial records. The Extension Service in many counties has small sessions also designed to teach all farmers about the coordinated financial system. We realize that it isn't easy. Many college students going into accounting classes have apprehension in doing balance sheets and double-entry bookkeeping and it has to be very disheartening to small farmers without that kind of background.

On the other hand, without some type of recordkeeping system in place, the farmers will not be able to put their business on a profitable setting. I think part of the problem we have had in the past is many farmers have thought of themselves not as business people, but as farmers, when in fact they have to make the business decisions. When tractors cost $30,000 and up, you need to know whether or not it is cheaper to repair or replace. You need to know whether you should take advantage of accelerated depreciation or some other type of depreciation.

And as I see it, we are going to have to do something to teach these skills to the farmers. Perhaps a simpler version could be developed for those smaller farmers that could be useful to them. Many farmers are small, they do not have the elaborate system and do not need an elaborate system, but they certainly need some type of system of recordkeeping, bookkeeping.

Mr. English. I would wholeheartedly agree with your statement. But as you have aptly pointed out, each farmer's situation is a little bit different. Certainly you don't have the same needs for small farmers growing one commodity as you might for a very large farmer who may have several different commodities that he is producing.

The coordinated financial statement, of course, is simply one method of recordkeeping.

Dr. Robbins. Yes, sir.

Mr. English. But it is a very intricate, very complicated, very difficult system, that once a farmer starts using that system he is almost compelled to continue to use it into the future. The subcommittee has some hearings on this and one of the criticisms we had was the fact that you are not just requiring a farmer in order to receive a loan to complete a maze of questions and pages that are difficult—in fact, we had CPA's telling us it was difficult to do—but also that it required that farmer from that point on to accept and use the system. From now on, if he is going to computerize, he has got to use the same continued financial statement-type computer program which you could buy from the guy who owns the program, who got paid $1 million by the Government to develop it. It is the kind of thing that just goes on indefinitely.

Do you think that it would be possible to continue as we have in the past to have a generalized system of application, an application four or five pages long that provides the necessary information to Farmers Home Administration, while at the same time urging that farmer to choose whatever recordkeeping procedure that benefits his operation from the large number that there are available to us, and still fit this requirement of having a good, whole grasp and understanding of what is taking place in his business?

Dr. Robbins. Yes; I am aware of the coordinated financial statement system that has been developed and more or less put into place. It certainly is very complicated. I think one of the reason for its complication has been it was developed to be all things for everyone. There is a portion for animal production, there is a portion for crops, and each different crop and so on.

I think perhaps we need to examine that and see if we can divide it up and make it into something more suitable for those smaller farmers who do not, for example, have animals.

I think there are two crucial parts of the system. One, of course, is the cash-flow projection which indicates when the money is going to be needed to avoid having to pay interest rates on money that is going to sit in the bank for 3 or 4 months while you are waiting to pay the labor.

The second portion that is very important is the balance sheet, which looks at the overall financial picture of the farm. It might be possible that a more simpler version could be developed that would address those two critical needs for the small farmers.

Mr. English. I think that is a very good point.

Mr. Towns.

Mr. Towns. Thank you very much, Mr. Chairman.

Outstanding testimony, Dr. Robbins

I have a few questions. No. 1 is that if you were guaranteed funding at your present level, for the next 5 years, how many counties would you be able to add and how many additional farmers would you be able to add?

Dr. Robbins. Well, in our particular program we only have about 160 farmers and we were not able to add many more primarily because the instruction is one on one. We hope that after 1 year we can move on to other counties where the people need it. We would certainly like to monitor these farmers for the next 2 or 3 years to see how well they followed through after we say get out of the one on one phase.

In North Carolina we have 100 counties; we have the project in 5 counties. If you have 5 counties per year for the next 5 years, you are talking about 25 counties. Many of the minority farmers are in the eastern part of the state, so while the black farmers are not going to be spread out in all 100 counties, they are present in 60 or 65. We would hit perhaps less than half of the counties and much less of the farmers that would be in need in 5 years.

Mr. Towns. You made a statement that was not clear to me. You used the term "attitude" toward land. What do you mean by that?

Dr. Robbins. That has been some concern that among blacks, the importance of land ownership, once they leave agriculture is not well understood. Many of them want to get out and just forget the land. In fact, attitude has been one of the problems we have when we go out recruiting for agriculture students. There has been a belief from the 1930's, 1940's, 1950's, when the old sharecropper system was in place, that the farmer was exploited, he was not permitted to keep records, or didn't keep records, or couldn't keep records. He never knew what was owed, what was sold, how much money was made. Often he was told he owed the landlord and had to stay on the farm to satisfy the debt. It was not unheard of for a farmer to steal away in the middle of the night because after working all year, he wound up owing the landlord money at the end.

I think that turned a lot of the younger people away from agriculture, and away from land, and they simply did not want any part of it. I think that this kind of experience led to this attitude, and we feel that we need to change it.

Mr. Towns. I am not trying to put you on the spot, I am seeking information on this. If you could change this program anyway, what would those changes be?

Dr. Robbins. Well, I think we would certainly like to see more people involved in the program. It is very difficult when you are only working with 30 or 40 farmers in the county and you know there are perhaps 200 or 300 out there that really need this program. That would be one way we would like to change it.

I think the second way would be have a little better meeting facilities when working in group sessions. Because of the nature of our work, we have to coordinate with the Extension Service and other people in the area and sometimes it is difficult to find adequate meeting space to hold 35 or 40. For example, during the winter months, the schools are concerned cutting back on energy. They don't want to leave the heat in the building on all night, for just one classroom. So we need some type of little better coordination with some of the local agencies in terms of having access to space and facilities in which to teach.

Mr. **Towns**. We have gotten some complaints about your program, in the selection of participants. Could you just describe exactly how they are chosen?

Dr. **Robbins**. We selected about 30 in each county. What we did was to visit about 10 counties, those that had a lot of minority farmers. We were accompanied by the State director for the Farmers Home Administration. We explained what we were attempting to do and sought the cooperation of the local county supervisor.

In each county, the county supervisor suggested names from the list of people that had applied for loans that were having difficulty with the CFS. We contacted those people for which we thought it would work.

Then in order to compare with people who were not Farmers Home Administration borrowers, through extension and other agencies, we sought to get 5 or 10 people that could serve as a type of control group. We could compare those Farmers Home Administration borrowers and try to see what type of learning problems they were having as compared to the non-Farmers Home Administration borrowers. So these borrowers were selected for the most part from those people who were Farmers Home Administration borrows in the county.

Mr. **Towns**. I guess when you have so little to work with you always have these kinds of complaints.

Dr. **Robbins**. Yes, sir; in fact, while we planned to cut it off at 30, we found some of the counties grew to 30 or 35 and some places more than 40 or 45 have come out to the meetings.

Mr. **Towns**. Thank you very much, Mr. Chairman. I have no further questions.

Mr. **English**. Thank you, very much, Mr. Towns.

Dr. Robbins, you have stated of course that you have a very small number of people that are able to fit within your program. For those people that are not part of your program, who cannot participate, for whom you simply don't have room, small farmers and so on, who are not CPA's—does the coordinated financial statement pretty much eliminate them from participating in the Farmers Home Program?

Dr. **Robbins**. It would be very difficult for those without some type of training at the level at which we are working with to fully understand and be able to complete those forms. There are efforts—in the attempt to address that problem—by the Extension Service to have some small sessions with their local agents in the counties to assist the farmers. With the small farmers, their program has been as successful as our program because they have been working, for example, weekends, one or two weekends a year and so one doesn't get the kind of intensive work that our program has given.

Mr. **English**. I have heard that it takes 2 or 3 days to even get the supervisors at the local Farmers Home Administration office trained to fill out one of these things.

If you were going out to very subtly discourage people from applying for Farmers Home loans, can you think of a better way to do it than the coordinated financial statement?

Dr. Robbins. Well, it would be very difficult for them to complete the forms as complicated as they are. There is no question about that.

Mr. English. Could it be operated in that manner to discourage people from even applying for loans? Let me put it to you this way. This is the situation I am asking.

Let's assume, perhaps, that we don't think much of the Farmers Home Program, philosophically we don't like it, it doesn't fit, we don't think the Government ought to be in the lending business. Congress has said, time and time again, that they are going to support it. The Congress continues to support it, the Congress continues to appropriate the funds for it and, quite frankly, politically it would generate an awful lot of heat if you came out in the open and said we are going to eliminate this program and do away with it.

On the other hand, if we wanted to be able to say now, you know, we are continuing to make loans, we are making this program available to the people, but we are handling it in the most responsible manner we possibly can, so we have designed this new form that we say among ourselves we recognize and we know, as we go out and talk to our supervisors, is extremely difficult to fill out. We even had the head of the program up here. He said the best he could do was 6 hours in filling out the thing. He was one of the first ones that was in on the development of it, as I understand it.

But anyway, you go through all this stuff, and you provide this form. Does that not then put you in the position where you say, we have both the program open to everyone that wants to come in, we are trying to make loans to all the eligible people, and in fact we might even go out and publicly say we encourage people to come in and participate. We are going to try to help them and work with them and make the Farmers Home Program work. Then we hand them one of the forms and say you go home and fill that out on the kitchen table, and bring it back to us. Does that put you in a position to do that?

You don't have to worry, those applications will never be turned in for the most part because folks will simply be so discouraged and simply don't understand and can't get assistance to fill that out. Does that work in that manner? Are you aware of cases like that that have happened?

Dr. Robbins. I am aware of cases where farmers have complained about the difficulty of completing the forms. I don't know whether they led any not to apply at all. I would be afraid to speak for what motivates other people.

Mr. English. If you were going to do this, would this be one way to do this?

Dr. Robbins. I would like to say, using an analogy of any small business, be it a restaurant business, mom-and-pop-type restaurant business, if it went in to a bank to apply for a $50,000 operating loan, I am sure that many of these same types of forms are going to be required to be completed by them. I think they are all going to have forms to complete. Whether or not the forms could be simpler is maybe another issue. I think some type of form, some kind of record system, is going to be needed.

Mr. English. I would agree with that. I have no disagreement. We are talking about this line being crossed from the standpoint of good management over to where you are actually achieving something else.

Now, we had people from the banking system come in and look at this thing, they didn't like them, it wasn't going to do the job, it wasn't necessary. The thing that makes you wonder is, why pick this complicated system? We have got a Paperwork Reduction Act that is supposed to be part of the Federal Government, supposed to be reducing all this stuff. Here we go from a 4-page form up to 27 or 28 pages.

Dr. Robbins. I think I would agree, the form could be reduced. For example, in the cash-flow statement form, it covers just about every possible enterprise. A person who only grows tobacco and corn would need probably 10 percent of what is on that form.

Perhaps a better system would be to develop a form that is particularly special to the type of operation that is localized for that given county. I think the real problem is the form that was developed is a national form, supposed to satisfy tobacco, dairy, cotton from all over the country, as opposed to a more localized form that might be good for, say, North Carolina or eastern North Carolina.

Mr. English. I appreciate that, Dr. Robbins, and appreciate your testimony. I think some farmer is going to be happy to know there is some provision in the farm bill which would eliminate this particular coordinated financial statement, prohibit Farmers Home Administration from using it. As I said, I have no disagreement whatsoever. I certainly want farmers to understand what is going on in their business, and we would all encourage that.

It was my feeling, since I was the sponsor of that provision in the farm bill, that the coordinated financial statement crossed the line and in effect became a hindrance to people applying for and/or receiving loans. This is particularly true of many of our small farmers who didn't know anybody or didn't have the money to go out and hire somebody to do this work for them. That is what happened with a lot of folks.

Hopefully, we will have a little better system for you to work with on these farmers. We would be very interested in any input you could give us as to how you think that ought to be set up.

Dr. Robbins. I would be glad to.

Mr. English. Thank you. We appreciate it.

Our next witness will be Dr. Errol Rhoden, with Tuskegee Institute in Alabama. I believe you are going to have some slides to go with your testimony, is that correct, sir?

STATEMENT OF DR. ERROL G. RHODEN, TUSKEGEE UNIVERSITY, ALABAMA

Dr. Rhoden. That is correct.

Mr. Chairman, thank you for inviting Tuskegee University to witness here. My presentation will take a different format from Dr. Robbins in that the programs are totally different. I would like to make a statement, then go on to show you some of the things that are being done in the counties in Alabama.

Approximately 75 percent of the farming community in the United States and more than 80 percent of the Southern farms are considered small. This is in terms of both gross income and total land area. The U.S. Department of Agriculture broadly defines a small farmer as one whose gross income is $20,000 or less per annum. Tuskegee University defines a small farmer as one who derives most of his livelihood from the farm and whose total farming base is 200 acres or less and whose gross annual income over a 3-year period is less than $20,000.

Based on these criteria, 85 percent of the farmers in the South would be considered small. While these farmers constitute the largest segment of the farming community, they produce approximately 20 percent of the total agricultural commodities of the South. These farmers are usually characterized by their lack of economic stability, their lack of education and professional training. They are generally over 50 years old and are not considered to be politically astute.

It is for these reasons that they have been left out of the agricultural mainstream. Federal and State policies with resultant programs have all but excluded these small farmers. In general, these policies have encouraged and supported the production of crop and animal commodities that require large acreage, very high economic input, and these are usually easier to manage.

Small farmers are essentially told that they must compete or they must get out of the business.

During the past three to four decades, many of these farmers have chosen the latter and have joined unemployment lines in the urban areas. The farmers that we are presently working with have chosen to compete with larger farmers producing the same commodities. These farmers have exhibited the same needs and desires as larger farmers, but because of their limited land base, their economic return per unit area must be higher if they hope to achieve a standard of living that is above the poverty line. With little or no research technology designed to fully address the needs of these small farmers, they are forced to compete on an equal basis. Given the present situation that the limited-resource farmer faces, the small family farm is definitely heading for extinction.

The Farmers Home Administration project, as is being initiated at Tuskegee University and other institutions, such as North Carolina A&T, is an attempt to address some of the problems and concerns faced by these small farmers and at the same time to seek solutions to these problems.

At Tuskegee University, we have taken a different approach from the other universities. We are working with a multidisciplinary team of researchers, and our main aim at this time is to develop research technology that is desperately needed on these limited resource farms. This project provides the opportunity for these scientists to work directly with the small farmers and other public and private organizations in formulating farming systems. The project also provides intensive direct supervision of the farmers through farm visits, workshops, and seminars.

Recommendations that are of general management and maintenance nature will be made directly to the farmer. This was agreed upon with the State Farmers Home Administration personnel, but those requiring large financial input will be made directly to the State office. The staff at the State office and the county will determine the feasibility.

Now, let me explain the project to some extent and some of the findings. When we speak about farmers being older, the farmers that we are presently working with, their average age is 53 years. They have an average number of seven children, their education level is to the ninth grade, they own approximately 72 acres of land. Now, the project at Tuskegee University was started late, the personnel did not come on until, starting June.

During that period, we have spoken with the State office. They were the ones to determine which farmers should be included in the program. Each county supervisor provided approximately four names of those they thought would be best suited or would need this program the most. We ended up with approximately 39 farmers from 9 counties.

We are working closely with these farmers, and we visit them, each farmer, approximately once per month. However, we are not only involved with records, recordkeeping and financial matters, there is a team of scientists, which includes a sociologist, an agronomist, a plant protectionist and agricultural economist. Whenever each specialty is needed, a lot of time is spent with this farmer.

However, when it comes to recordkeeping, we do not only restrict ourselves to the 39 farmers that we are presently working with when we go into each county, for recordkeeping, we invite as many as 30 farmers to these sessions. All this we have tried to do with the cooperation of the Farmers Home Administration personnel.

The nine counties we are working with in Alabama are Macon, Montgomery, Bullock, Butler, Barbour, Pike, Henry, Crenshaw, and Lowndes. Most of these are usually in what is referred to as the black belt counties.

Now, I will go to showing you what we do both at Tuskegee University and what is—what some of these small farms do look like. When we speak of small farms, as I just said, we speak of farms that are usually less than 200 acres. Usually we are talking about farmers with less than 72 acres.

Whether they are in livestock or in crops—these farmers, we can refer to as limited resource farmers. If you can imagine, from this side, this is what such a farmer has as his resource. Our idea is to work with whatever he has and improve it.

The farm is usually the home, meaning he has this acreage, he operates his farm there, he has his home. His home is part of his farm. His land preparation, seed planting, growing of his crops to harvesting are done in close proximity to his home.

Now, at Tuskegee University, we have chosen to sell two ideas to farmers. If he is going to survive in agriculture, it is imperative that he does not compete with the large farmers. There is no way that he can put the high economic input that is required as the large farmer.

Now, the quality of his equipment is something else. As you notice here, this is a brand new tractor that one of the limited resource farmers has. Now, on the other hand, you do find equipment like the one you just saw parked in garages, a $20,000 to $30,000 piece of equipment, that would be used to harvest 20 acres of soybeans. I have seen that on more than one farm. On the other hand, there are farmers with 200 acres of land who are unfortunate enough not to be able to obtain financing from Farmers Home Administration.

I don't think the slides are going too well, Mr. Chairman.

Mr. English. I will ask you some questions.

With regard to the approach you take with small farmers, I notice you say you would not attempt to advise them in such a way they would get into competition with the larger farmers. Are you talking about in the way of commodities?

Dr. Rhoden. Yes.

Mr. English. In other words, you are advising them to go into commodities that might not be produced in the area by large farmers?

Dr. Rhoden. Yes, that is what we are encouraging.

Mr. English. What kinds of commodities do you get into? I notice you had some goats?

Dr. Rhoden. Yes. That is something we are recommending. However, we do not go to the farmer and say to the farmer, "You have to abandon this 40 acres of soybeans or cotton, or whatever you have, and turn right away and put it into any of the 10 crops that we recommend."

Mr. English. What 10 are those?

Dr. Rhoden. Mustard greens, collard greens, muscadine grapes, snap beans, cowpeas, sweet potatoes, okras, blueberries, and sweet corn. Those crops we are recommending are the ones we are using on the Tuskegee University small model farm.

Mr. English. It sounds like, and I may be wrong, but it sounds like basically what you are advising the smaller farmer to do is go into a truck farming type of operation as opposed to the major commodities where—you would have to have hundreds of acres to produce. For instance, in wheat or even in—I guess soybeans would almost fit into that category as well, or cotton.

Dr. Rhoden. That is true.

Mr. English. Are you finding—can they, if they move into that particular area, into more of a truck farming operation, are they able to make that transfer into that kind of a system without suffering the large income losses? I mean, what you are, in effect, doing is taking different kinds of equipment to go out and put in soybeans and harvest soybeans as opposed to growing okra. I am not an expert on it. I am asking more than making a statement, I suppose. Is that statement correct?

Dr. Rhoden. Let me point this out first, as you notice from my first statement, we started this in June. Now, we cannot say—at this time, we do not know how many of those 39 farmers that we are working with will follow any recommendations that we might make with regard to the crops that they should grow. However, we are recommending this based on proximity to market and available market.

Now, as far as equipment is concerned, a large number of the farmers, the type of tractor you see there would be the equipment they would be working with. However, I have seen about four or five cases where I know that the equipment that he has to harvest soybeans will be auctioned off sometime later this year.

Mr. ENGLISH. With your professional expertise and given the problems we have nationwide with agriculture, I would agree with you, that the small farmer is at a decided disadvantage. What we are really talking about is an economically viable unit farming operation. And if you are talking about—for instance, wheat, you are going to have a lot of acres to produce wheat. It is a very expensive operation.

The fact that it does take 600 acres squeezes out what in many areas would be considered to be a small farmer. As we adjust in American agriculture in finding a role for the small farmer, do you envision we will see more and more of the small farmers in America turning more to truck-type crops or different types of commodities such as that? Do you really see that as being a viable option to the guy simply getting squeezed out?

Dr. RHODEN. That has to be the option. The reason behind this is if you made $100 per acre on one of your commodity crops, and this farmer has 25 acres, he cannot survive on $2,500. However, if he has—if he uses this into other operations, like your vegetables, it is possible that he could make $1,000 per acre. with management, with proper management. So I would say, yes, he would get out of your commodity into some form of vegetable production.

However, I have seen, because of recommendations that have been made over the past 6, 7 years at Tuskegee, we have seen larger farmers who are going into—medium-size farmers, farmers with 300 acres—who are now going into producing vegetables, and what they do is invite the consumer to come on the farm to pick these vegetables, like this—an example was this lady in Macon County, she has always produced snap beans or butter beans, snap beans and butter beans, but she has always sold the butter beans at $12 per bushel. There are two large farmers, about 15 miles from her, who have planted 50, 60 acres of butter beans, who let you go on their farm and pick butter beans for $4 a bushel.

Now, with that sort of a competition, that is what is going to happen where the larger farmers are going to come in, then you are going to have another problem again.

Mr. ENGLISH. Good point.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

You have 39 farmers in the program. That must lead to a tremendous amount of frustration on the part of the other farmers who were not selected.

Dr. RHODEN. I would not say that is an accurate description of the problem. You see—let me tell you how it came about these 39 farmers were selected. The Farmers Home Administration—at the State level—after we spoke to them, showed them exactly what we are doing at Tuskegee and what their problems were with the farmers in terms of repayment, they choose possibly their worst 39 farmers. This was done at the county level. Each county supervisor sends in approximatley 10 names. I do not know what these original 10 or so names were, because at the time there was some problem with confidentiality.

So we got, four farmers basically were selected from each county and given to us. That is how they were chosen. So if there are frustrations on the part of other farmers, I really do not know, because I do not know who these Farmers Home borrowers are.

Mr. **Towns**. How much money do you have in this project? It's funded at what level?

Dr. **Rhoden**. $372,000 is what I remember it to be.

Mr. **Towns**. I was just thinking if you could, in some way or another, elevate those 39 farmers so that they could get involved in helping other farmers with similar problems, I was thinking that might be very helpful. Have you thought about that at all? The 39 you are working with, at the point where they are able to make adjustments and go into different crops and are doing well financially and really moving along, then they could use the 39 that you have trained to go help others.

I just think that helping 39, understanding the problems as we see it, and based on the statistics we have, by the turn of the century, there will be no black farmers if they continue to go out of business at the present rate.

Dr. **Rhoden**. This would be our ultimate goal. There is, I think—this hearing is very good, but for our program, I think it is short in that I do not at this time, after 4 months, have any concrete evidence to give to you with respect to how farmers would adjust from their present farming system to a new one. Right now I am only 4 months in the program. We have been working with them, and the most critical need, as Dr. Robbins just pointed out, was there are absolutely no records on these farms. These farmers have no records. What records they do have are minimal, and there is no way they can tell where they are losing money and what they should get out of it.

He just tells you "I am losing money." "Where are you losing money?" "I am losing money." That is basically what it turns out to be.

Mr. **Towns**. Thank you very much, Mr. Chairman. I have no further questions.

Mr. **English**. Thank you, Mr. Towns.

Dr. Rhoden, we appreciate your testimony. It is very kind of you. You have done a nice job. Again, I want to commend Tuskegee for their approach. I think that may be an area that some of our smaller farmers might be able to move into productively. I am hopeful that it is. I would hate to see a situation in which because of the economic evolution of agriculture that there is no room left for a small farmer. I would take note of the fact, however, we find one group in agriculture that is growing, which is the small farmer, but that is not the small full-time farmer. That is the small farmer who has a job in town and works on the weekends.

I would still like to see us have some small full-time farmers there and still have an opportunity in this country for the American dream to come true of expanding and becoming more successful as they increase. I think through the work of your fine school down there perhaps we shall find the crops and commodities they are suited for that will help bring that about. I commend you for your fine work down there.

Dr. **Rhoden**. Thank you very much.

Mr. **English**. Thank you, sir.

[The prepared statement of Dr. Rhoden follows:]

TUSKEGEE UNIVERSITY
FOUNDED BY BOOKER T WASHINGTON 1881
GEORGE WASHINGTON CARVER AGRICULTURAL EXPERIMENT STATION

Vocational Building, Room 207
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205-727-8334

Project Statement

FmHA PILOT SMALL FARM REHABILITATION PROJECT - ALABAMA

Address given to Congressional Black Caucus
Washington D.C. Friday, September 27, 1985

by

Errol G. Rhoden
Director and Coordinator
Small Farm Project

During the last several decades, there has been a continuous shift in the structure of agriculture in the USA towards fewer and larger farms and a decrease in small farm population. This was mainly due to a lack of research information and technology designed to address the needs of the small farmer. Little attention has been given to such areas as costs of labor, machinery and energy and suitable marketing strategies for small farmers. The resultant sociological and economic consequences and implications of this has been the migration of less educated and unskilled rural youth to urban areas, thus creating high unemployment and associated problems. There is therefore, a growing need to address these problems. This project will identify, develop and evaluate custom farm plans, different cropping and livestock systems, alternative marketing strategies, farming systems research and good record keeping systems among small farmers. This would provide an opportunity for small and limited resource farmers to more efficiently utilize their labor and other economic resources, resulting in improved farm management and ultimately a better quality of life.

Small farm research was initiated at Tuskegee University in 1979 by Dr. Booker T. Whatley. Today, several scientists are working on different aspects of small farm research. Four of these scientists, Bobby R. Phills, Michael Boateng, Conrad Bonsi and James R. Allen initiated the development of this project.

Because of the tremendous economic and social importance of small farms nationally as well as at the state and local level, the success of this project will greatly enhance the stability of small farms in Alabama and the United States in general. Since this is a pilot study, it may serve as a model for other small farm programs throughout the country.

Mr. English. We are very pleased to have our next witness, Representative Diane Harvey Johnson. Representative Johnson will be accompanied, I understand, by Dr. Willie Rawls, who is the chairman of the Fort Valley State College—is with the agricultural department. Please come forward.

Congressman Lindsay Thomas was here a few minutes ago. I understand he is on his way back. We will let you begin your testimony, if you would, please.

STATEMENT OF DIANE HARVEY JOHNSON, STATE REPRESENTATIVE, DISTRICT 123, STATE OF GEORGIA

Ms. Johnson. Thank you very much, to the chairman, distinguished members of the panel, especially my good friend, Representative Towns, ladies and gentlemen.

It is indeed our privilege and pleasure to be with you on this occasion. Certainly I am not an expert on small farms or Farmers Home Administration. It is my pleasure to make a very brief statement on behalf of small and black farmers, and then to ask my friend, Dr. Willie Rawls, from Fort Valley State College to share some information based on his research.

This is my first time being invited to speak before a congressional panel. Of course, I have talked with my Congressman, Congressman Thomas, because he is like me, or I am like him, I am everywhere. It reminds me of a story that one of my colleagues tells about Lester Maddox when he was Governor of Georgia. He tells the story about people asking you to speak, when you are not really understanding what they are expecting or what they want. But the story goes like this: Mr. Maddox, when Governor of the State of Georgia, was the first in our State to implement the practice of allowing prisoners who had been on good behavior an opportunity to go home for the holidays, and I am sure all of you have heard Dan Rather say after Christmas or Thanksgiving of the 462 prisoners allowed to go home, all but 2 have returned.

Mr. Maddox began that practice in Georgia, and on one such Christmas holiday, a lady came to the capitol with her eight children. They were poor people; she did not know government protocol, that you had to make a 2-week appointment to see the Governor, but Mr. Maddox decided to see her anyway.

He began to talk with her, "Ma'am, what is the problem, how may I help you?" She said, "Governor, I have my eight children with me, and their father is in prison down in Reidsville, and we are distraught because we were expecting him to come home for the Christmas holidays." The Governor continued, "Ma'am, what is he in prison for?" And she responded, "Well, they claim he was stealing hams off of Farmer Brown's farm."

So he said, "Well, tell me about him. Is he a good father, good husband?" She said, "No, sir. I didn't say anything about him being a good husband and father. As a matter of fact, he runs around in the street with other women and throws away his money, and when I complained a couple of times, he hit me up side the head." So the Governor says, "Why on earth then would you want this scoundrel at home?" She says, "Governor, I have got eight mouths to feed, and we are about out of ham."

The moral to that story is sometimes you hear people talking, but you don't understand where they are coming from, but certainly we understand what our purpose is here today, and that is to assist small and black farmers.

From our information, the historical lack of access to resources, information, cooperation, and goodwill necessary to mainstream in the American free enterprise system is the major problem facing black farmers today. In 1985, we hear stated that there is equal opportunity, but can there ever be true equality between he who has had access to the mainstream for nearly 400 years in this country and he who merely discovered the mainstream less than 25 years ago?

Regardless of our efforts and thrusts, the true test of democracy reveals not so much who is sitting around the table discussing issues, but who is sitting around said table when the economic pie is being divided up and distributed.

Toward this end, if the black farmer or black of any vocation is to succeed in America, it will take a real commitment on the part of the leadership on all levels to be innovative, courageous, and aggressive where economic parity is concerned.

Common sense tells us too that there is a conflict when we talk about helping the black farmer on the one hand, when on the other allowing regression where civil rights and other support systems designed to bring about fairness for the black farmer and his community are being attacked, phased out, and outright abolished.

Civil rights mean little in America without silver rights. When you remove racial discrimination and systematic exclusion from the picture, you find that the problems of black farmers are generally the same as any other small farmer. And I can see from the attendance here today that it is very hard to separate the problems of black farmers from the problems of farmers in general who are trying to make a living.

I pray for and commit myself to work for the day, in the future, when we can assemble here in our capitol, and work toward strategy to move all of our farmers forward, regardless of their race, color, creed, sex, or national origin. I know that with your continued diligence, guidance, and leadership we will accomplish just that. For without a doubt, farming and agribusiness are still the backbone of our great economy.

I sincerely appreciate, on behalf of the small farmers of Georgia and the United States, this opportunity to humbly come before our honorable congressional panel.

Without further ado, I would like to ask Dr. Rawls if he would make his comments at this time. Dr. Rawls has spent more than a decade and a half in agricultural research matters. Coming from a small farming background himself, he has been employed at Tuskegee Institute and now he heads the department of agricultural instruction at Fort Valley State College, recently being promoted—I hope that it is a promotion—from a visiting professorship with Farmers Home Administration. Dr. Rawls.

STATEMENT OF DR. WILLIE J. RAWLS, HEAD, AGRICULTURAL INSTRUCTION, SCHOOL OF AGRICULTURE, HOME ECONOMICS AND ALLIED PROGRAMS, FORT VALLEY STATE COLLEGE

Dr. Rawls. Thank you very much, Diane.

Mr. Chairman, subcommittee members, I am very happy to be here today. I agree with my colleague, Diane, this is a first experience for me. We are here this morning because we are interested in the plight of the small farmer, particularly the black small farmer, as well we are here because we are interested in the success of black small farmers and their continued contribution to agriculture. I am sure many of us today can cite many problems and many situations that have affected black small farmers over the years. These problems and situations have had a serious impact on these and farmers in general and to a great extent have caused them to be where they are today—in a financially distressed situation.

Based on my experiences with black small farmers and with the Farmers Home Administration recently, I will discuss four problem situations that I feel have had a serious impact on the present circumstances of black farm operations. Before doing so, let me first of all say that the problems and situations of small farmers in general are well documented. This information has not been used effectively in the past and is not being used effectively at present as a foundation for developing and implementing relevant programs for impacting small farm operations such that stability could have been maintained over the years.

As I have said, my comments of four problem situations with respect to the present plight of black small farmers are based on experiences I have had with black small farmers and most recently with the Farmers Home Administration. Situation 1: Biasness within the Farmers Home Administration structure over the years resulted in few blacks in decisionmaking capacities. This situation has limited individuals within the organization with interest and who understand the black small farm situation. A few years ago, there were black vocational agriculture teachers and county agents in a majority of the counties in Georgia and the Southeastern United States who worked with black small farmers with an interest and who understood the situation. But now there are very few left who understand the situation such that he may be effective.

The few blacks that are a part of the Farmers Home Administration structure are screened so close to make sure they fit into the good old boy network in such a way to be passive, nonresponsive, and ineffective where the black small farmer is concerned. The black administrator who shows a real interest in helping the black small farmer finds himself having to make the agonizing decision of whether to look out for himself and feed his family versus the welfare of black small farmers.

Situation 2: Farmers Home Administration and other agriculture agencies have not and are not providing adequate technical and management services to black small farmers who have been granted farm loans. Most of the black small farmers that I have come in contact with are middle aged. Let's say a 50-year-old black small farmer obtains a $50,000 loan from Farmers Home Administration. Usually the loan is granted without technical or managerial services being a part of the farmer's program. These services are important to middle-aged black small farmers who are not well educated and who do or can not keep pace with innovative developments in agriculture. The concern arise here is whether technical and managerial services should be provided black small farmers as part of Farmers Home Administration loan programs.

There is very little if any efforts that have been and are being made to acquaint black small farmers with new opportunities and developments in farming by organizations mandated to provide such service. Today, success in farming occur to those who are provided services as to how to manage a farm as a business.

Situation 3: Farmers Home Administration loans to black small farmers are usually too little to late. What a black small farmer needs is exactly what he is not going to get. He asks for a loan of $100,000, he may get $20,000. He asks for $50,000, he may get $10,000. That $10,000 he may get usually is awarded in June, for example, which is too late. In cases like this, it is too late to start up, for example, selected crop enterprises; nevertheless, black small farmers start their crop enterprises despite the odds, resulting in low returns, poor quality, and ultimately, low market price. These kinds of situations have put black small farmers deeper and deeper in debt.

Situation 4: Farmers Home Administration have not and does not assess adequately the black small farmer's total situation as a basis for making farm loans. In most cases, farm loans to black small farmers are made by supervisors in their offices as opposed to going to the farm assessing the situation, then working up a farm plan based on that assessed situation.

With what I have said, you are probably wondering is there any hope for the black small farmers? I am optimistic there is hope. It's going to take special innovative-type programs designated for this group. Tuskegee University has presented an example of an innovative program for black small farmers. We at Fort Valley State College have designed and implemented an innovative program as well. Our program is innovative in that it addresses the problems of black small farmers by assessing the true situation first, then developing both printed and audiovisual materials are to be developed for use with and dissimination among black small farmers using primarily a one-on-one approach. This is a pilot project designed to equip black small farmers with essentials necessary that they can operate a farming business independently, and produce income in an amount necessary to service debt, maintain farm operations, and provide a reasonable standard of living.

We are hopeful that this project will be successful and the results will be such that they will justify a need to broaden the program activities.

Thank you very much, and I hope I have said some things that will stimulate questions and interest.

[The prepared statement of Dr. Rawls follows:]

Statement by: Dr. Willie J. Rawls
Head, Agricultural Instruction
School of Agriculture, Home Economics,
and Allied Programs
Fort Valley State College
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Fort Valley, Georgia 31030

The following describe problems relating to the present plight of Black farmers in Georgia, with respect to Farmers Home Administration practices:

I. Outright bias which results in virtually no Blacks in decision making capacities. The few that are, are screened so closely to make sure that they "fit" into the "old boy network" in such a way as to be passive, non-responsive, non-action oriented, and ineffective where the Black farmer is concerned. The Black administrator who shows a real interest in aiding the Black farmer finds himself having to make the agonizing decision of whether to look out for himself and feeding his family__ versus the welfare of the Black farmer. In other words, to stay in, one is put in the position of abandoning the very ones who could benefit from their help most. Both the Black farmer and the Black administrator or staff member find this situation stressful and frustrating. The Black farmer might as well be confronted by an all white staff, than to run up on these "Blackless" Blacks.

Statement of Dr. Willie J. Rawls continued:

II. Farmers Home and other Agriculture agencies do not provide technical and/or management assistance once the loan has been granted. Most of the farmers that I have come in contact with are middle-aged. Let's say a fifty-year old man gets a $50,000 loan. Usually he is given the money without any informational or counseling services. There is no effort to acquaint him with new opportunities, the latest successful methods or techniques, referrals to those who can assist him in making a profit, and therefore increasing his chances of repaying the loan on a timely basis, etc. Would assistance to help the farmer get on the right track to be successful,be asking for too much where the tax payers' money is concerned? By doing some of the aforementioned,we can reduce the practice of throwing good money after bad.

III. Farmers Home loans are usually too little, too late. What you need is exactly what you are not going to get. Ask for a loan of $200,000, you may get $50,000. Ask for $50,000, you may get $10,000. That $10, 000 may be awarded in May, which is too late to plan and plant the way you should, but the farmer will plant anyway. He's gone through so much to get the money, he sometimes feels that he has to redeem himself. He's had to reveal all and subject himself, in many cases, to undue personal interrogation. It may seem to him that to get any size loan is a victory of sorts. He will then seek to work a miracle, although the odds are against him. As a result, the farmer does not receive the maximum return from his farming enterprise. Thereby sinking deeper and deeper in debt.

IV. Farmers Home does not adequately assess the Black farmer's total situation as a basis for making farm loans. Application procedures are done behind the desk instead of going out on the farm to actually see waht the potential of that specific farm might be.

With what I've said previously, you may wonder why I'm even here, if things appear so hopeless. But there is hope. The leadership must support the 1890 Land Grant Institutions in taking the initiative in establishing programs that will document, as well as provide management and technical assistance to make these farms profitable. Educational programs must acquaint the Black farmer with the various types of assistance available from the various agencies. He must be familiar with the types of financing and loans. Then too, not only he must know, but because most Black farms are family enterprises, the wife and heirs should be knowledgeable of financial arrangements as well.They need to know if the land is tied up in a financial arrangement, and how to carry on in the case of the head's demise, or inability to perform for various reasons.

The Land Grant Institutions should be given an opportunity to serve in this capacity. They can make a difference for the small and Black farmer, but even they must be assured of having funding at a level which will mean success in this vital area of our economy.

Mr. English. Thank you very much, Dr. Rawls, for your fine comments, indeed.

I would like to comment on your comments. That is the point you make in your written testimony here where you have underscored on item No. 3, about Farmers Home loans are usually too little, too late. I think that is true of virtually every farmer in this country. That kind of got to be the rule of thumb. No telling how many farmers have gone out of business, not because the Farmer's Home Administration didn't make the loan, but made it too little and too late. The guy was already gone.

I think that is a real fine point to make. Representative Johnson, I commend you for your comments. In the political environment today, particularly here in Washington, we hear an awful lot of talk that the States need to be doing more. Can you tell us what opportunity Georgia has to provide credit for the farming community in your area?

Ms. Johnson. Well, we are still waiting for the New Federalism to take full effect, because we heard you all were going to send the money back to the States, and it hasn't quite gotten back down there yet. But I can assure you in the State of Georgia we are prepared to utilize that money in ways that will assist the small farmers.

The gentlemen at Tuskegee were talking about the greens and beans, and I would like for them to consider catfish to go along with those greens and beens. I know they are doing catfish farming in Alabama, and I am fortunate enough to be chairing a statewide study committee on aquaculture in the State of Georgia.

We are not only looking at the shrimping industry, crabbing, and oystering where I am from, but the catfish, trout, and bass around the State of Georgia. Mr. Chairman, certainly in the State of Georgia I think the general feeling may be among legislators, as well as the public in general, that farm policy is a Federal matter.

However, when we are there as local officials seeing what the situation and the plight of these small farmers is, certainly that is our responsibility to do all that we can. I think that we—the oportunity here today to be with you and to share some thoughts and hear from other people around the country, this is the kind of dialog that we need.

Of course, you all still have the money, and we will be looking to—if it doesn't trickle down, then how about some other ways in which—I support wholeheartedly the idea that Dr. Rawls put forward, and I understand one of the reasons—I had in mind to bring a five-person delegation up here today, but I was only able to convince two that maybe it was safe to come and even talk about Farmers Home. Because Dr. Rawls himself just received a $400,000 grant to provide management assistance to small farmers, and we all know that you don't bite the hand that feeds you. But some of us do in a lapse of sanity. We do that from time to time.

Of course, in talking with his colleagues, I tried to make them understand that they wouldn't have a thing at all if someone hadn't been coming up here. The squeaky wheel still gets the oil. So obviously someone has been coming up here paying their dues and trying to impress upon you the need to work that route.

Another thing, and I sit on the University System Committee in the House also; that is, the State 33 colleges and universities—now, the land grant institutions where agricultural research and programs are concerned in the State of Georgia, if you get to the segregated situation, which I don't know if we will ever overcome segregation in this country. And I say overcome it simply because we know that it holds us back.

As Mr. Towns says, it is very hard to get ahead when you have your foot on someone's throat, because you have to stay there and keep it on there, so it holds you back as well. These institutions, $400,000 sounds like a lot, but really when you think about it, what about staff? What about promotion? That could eat up a budget, not to mention the word you all like to use—inflation.

Four hundred thousand dollars, just what can be done? It is better than nothing, but it is just like that $10,000 that you give the farmer. It is not enough, and it is a little bit too little, and hopefully it is not going to be late. So without saying that, you know we hope money is somewhere in this picture, and you have been very kind and very patient in listening to our comments, and we certainly hope to establish a continuing rapport with you.

As a result, I can't say enough good things about Congressman Thomas. I was one of the enlightened Georgians that voted for him. Although he claimed he was a farmer, I know that he is a banker. But if he had to say that to get elected, that is fine. We are very proud of him, and certainly he represents our district well.

Mr. ENGLISH. I want to tell you, Representative Johnson, he has been up here telling us the same thing. I am delighted to be enlightened as well.

Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

First of all, let me say I know of the great work that you are doing in the State of Georgia, Representative Johnson, and I would like to commend you for it. She has been a real advocate for small farmers and the black farmers particularly throughout the State, and we think that that is extremely important during this very difficult time. Also, Willie Rawls, we know of your great work in the area, and we had an opportunity to visit your great university and to see the kinds of things you're doing.

Let me just say Dr. Rawls is one that believes in innovative ideas and trying things to bring about change. As a result, some of the farmers probably would have been out of business already if it had not been for people like him giving this kind of assistance.

I wanted to ask you, Dr. Rawls, about the county committee because I know of your experience in this area. As you know they have changed the selection of the county committee members. Two out of three now are elected in each county. How will this change—affect black representation in Georgia? We have been talking about the Farmers Home Administration and their attitude, and not being sensitive to certain issues and making loans to farmers after the planting season, and when it comes time to plant, the money is gone and the next thing you know the farm is up for sale.

Do you think a change in the procedure will help in any way?

Dr. RAWLS. No, I don't think it will, a three-man panel making a decision on the approval of a loan for black small farmers will change the procedures at lot. First, the panel does not represent the interest of black small farmers. Second, the panel is not knowledgeable of the true situation. You have to be concerned about where that loan application has to go from the point of approval.

The process is a big one. In a lot of cases, loan applications are delayed in the process, and that is one reason why the loans are always late.

I cannot foresee significant changes occuring with a three-man panel for making loans to black small farmers. I think changes need to occur throughout the system. Just what those changes will be probably will take an in-depth study of the whole system. I hope that an intense investigation is being considered now with the serious situation we are experiencing with respect to small farmers.

Mr. TOWNS. At Tuskegee University they have some very innovative programs going on now, and it has been in existence for 4 months, and they are not in a position to report how well it is going, but do you have any specific ideas on any kind of special programs that should be put in place that might help black farmers besides the ones they have mentioned?

Dr. RAWLS. Yes. I am not too sure of the details of Tuskegee's new program, but I think the one that we have at Fort Valley is an innovative one. As a pilot project funded by Farmers Home Administration with limited dollars, we hope to make an imprint on the plight of black small farmers such that the program can be broadened in dollars and activities. The project focuses on identifying the true situation as an initial step. Using this information for developing materials both printed and audiovisual for use in working with the farmer on a one-on-one bases.

Mr. TOWNS. Did you want to comment on that?

Ms. JOHNSON. Yes. I think that $400,000, if it could help five farmers get in the black, it would be worth it. But sometimes in the funded programs, this is not only on the Federal level, but all levels, the people who implement the programs based on the guidelines, the quantitative measurements, the numbers count. So if you say that you counseled or had sessions with 500 farmers, that sounds like you have worked a miracle, whereas in actuality, can you really show where as a result of that any of those 500 actually made a profit or advanced beyond the level at which they were before that?

So we need to be realistic in our funding. And when you start talking about one-on-one counseling for farmers and it was mentioned earlier going to the farms once a month. When you start talking about those kinds of activities it sounds like it would be costly. But I think it is worth every penny of it. I think it is worth every penny of it to try to work to make our farmers self-sufficient. I am not in any way talking about a nationalized or socialist kind of thing. I think that we help everybody else. Let's help our own. Why can't we take some of this money and start at the nitty-gritty, at the bottom, the small person who has potential and who has land. Let's take that time and invest that time to do what actually needs to be done. Let's do those kinds of things in the future. I don't want to—before Dr. Rawls makes his point, I must recognize in the State the fine efforts that have been made by the Federation of Southern Cooperatives.

I have been sitting on the Agriculture Committee going into my fourth session, and I notice the rapport the Federation has built with that committee and the level of consciousness, not only among the farmers, but he general public as a whole. We are talking about concerts now and farm aid to raise the consumers' and public's awareness of the plight of the farmers.

I think they have been doing this to the best of their ability for quite sometime. So we appreciate their efforts as well.

Dr. Rawls.

Dr. **Rawls**. To followup on the innovation idea, and I don't know how many of you are familiar with the work of Booker T. Washington and George Washington Carver at Tuskegee, but if we can reflect for a moment on how the situation was with black small farmers long ago. It is from my understanding, that George Washington Carver put together what they called the Jessup Wagon. The Jessup Wagon was equipped with certain kinds of tools where it went to the countryside where George W. Carver worked with small farmers and brought them from point A to point B.

The innovative idea today might be a van with a computer. For an example, myself and maybe a staff member will move from farm to farm, county to county, working with small farmers on their problems of today. I wish one of you would consider calling me on this idea and assisting with some funding.

Mr. **Towns**. I would like to yield to——

Mr. **English**. I want to recognize Mickey Leland, Congressman from Texas. Go ahead, Mickey.

Mr. **Leland**. Thank you, Mr. Chairman. I don't want to take up too much of your time. I came to thank you for your leadership in this matter and for concurring with us. This was a very timely hearing. We want to thank publicly the leadership of Ed Towns in this area. He has been beating us over the head for some time now about how we need to raise our consciousness of the farming industries, and become more sensitive about not only the plight of small farmers, but small family farmers.

We hear you, Ed, and we really appreciate the opportunity to participate in this hearing. Mr. Chairman, you have been awfully gracious in holding this hearing in such a timely way in conjunction with the Congressional Black Caucus. We have held five hearings encompassing different areas, which have contributed in making our weekend more meaningful.

Thank you very much.

Mr. **English**. Let me say I think it certainly makes a great contribution to our oversight efforts, and we appreciate Ed raising the point this would be the time to do it. So I think everything fits in very nicely. I also would like to say that, of course, I am also a member of the Agriculture Committee, and as I pointed out before, we have a farm bill on the floor. We deeply appreciate the support of the Black Caucus in our efforts to try to strenghten the overall effort for all of our farmers, and we appreciate you coming here today.

Mr. LELAND. We have grown in our understanding and sensitivity about the plight of the family farmer in particular, and we want to do all we can to help.

Mr. ENGLISH. We will do our best to reciprocate as well.

Ms. JOHNSON. Before Mr. Leland leaves, if I may just say this to you, sir, that—we mentioned Booker T. Washington a minute ago. Do you know he advised—he was he founder in 1915 of the National Business League?

Mr. LELAND. I was not aware of that.

Ms. JOHNSON. Well, we need to know our history.

Mr. LELAND. I whole heartedly agree.

Ms. JOHNSON. Booker T. Washington admonished black people back then to cast down the buckets where you are; that you should learn a vocation and a skill and then when you had money you would have respect. But then, of course, there were the others who felt that it was more important to try to integrate the hotels, motels, and restaurants. But what is the sense of having the right to ride at the front of the bus if you don't have bus fare? So I want to say I know that Congressman Towns may have been considered a freak in the Black Caucus many times talking about farming, but I think we have to do whatever we have to do to move ahead—the stepping-stone theory.

Maybe after you farm and make a million, then you can hire somebody else to run and manage it, but you must work from your own labor, and I don't think that we can impress that upon our people as much as we should even today.

Mr. LELAND. My grandfather was a student of Booker T. Washington and of George Washington Carver. He tried to teach me these values. Of course I ended up in Congress.

The fact of the matter is, my grandfather was a blacksmith and did impart some principles that were given to him by Booker T. Washington, so I am not unaware of these matters.

Ms. JOHNSON. All right. Good, good.

Mr. TOWNS. He is not, no question about it.

Mr. ENGLISH. I would now like to recognize, since we have been talking about money, the outstanding banker-farmer of the House Agriculture Committee, Lindsay Thomas.

Mr. THOMAS. Thank you. The first thing I should do is defend my position and get this straight, I was an investment banker for 8 years at one time in my career, and went back into farming full-time. I come from five generations of farmers. I love to tell—and it is true—my Revolutionary War ancestors are buried 20 miles from where I farmed down in Wayne County.

They were farmers and all five generations of my family. Remmington knew the horse. Thomas knows a little bit about the farm. If you will excuse me, I am going to refer to you as Diane. We were elected and ran for office together. I have taken a tremendous amount of pride in the interest you have shown in agriculture.

I think it is unusual, particularly since Diane is from the largest city in my congressional district, Savannah, GA. She went there with her intent to get on the agricultural committee. It wasn't by happenstance she showed that interest.

My hat is off to you, and I want to commend you for the outstanding work you have done on the agriculture committee there, and the State assembly and I want to encourage you to continue your efforts at all times. I hope my distinguished colleaue, Mr. Leland, didn't take offense at instructing him. You have instructed me from time to time, and I appreciate it.

Ms. JOHNSON. When you open your mouth, you are bound to offend someone. If I don't offend anyone before I leave, I don't feel I have got my money's worth coming up here.

Mr. THOMAS. No offense is taken. It is taken constructively.

I would like to make just a comment or two, Mr. Chairman, if I might. Unfortunately, I have a plane that I have to catch today. I brought with me three county commissioners. I am very proud of them. They come from the largest agricultural county in our district. It is also the second largest land area county in the State of Georgia, Burke County.

The district has been impacted hard by the recession, but here are their black commissioners from this rural county I am very proud of: Mr. Herman Lodge, Ellis Cosby, and Woodrow Garvey.

Would you three gentleman stand? I am very proud of these people. They are here visiting with me this morning. We had breakfast this morning, and I wanted them to come and see and hear you. There have been a lot of interesting comments on both of your parts, I think, and you pointed to what is very obviously a very real problem.

There is no doubt the ranks and numbers of our black farmers have been decimating. I have watched this occur. Friends who were my lifelong friends no longer own the land, the land is gone. The land is no longer there. I have seen this. We watched it start occuring in Georgia, and become accelerated in the latter part of the seventies due to the drought conditions and now it is occurring in other parts of the country.

We have been experiencing this for some time. We are very familiar with what has happened to the numbers of our farmers and what continues to be mounting pressure on rural America and the toll it has taken not only on the farmers, but the rural community. What I have tried to do, and I think most all members have the same approach, is to take a farmer individually as he comes to us, work through his Farmers Home Administration problem, get him in touch with extension agents.

We have a wonderful system through out college extension services, which are a wonderful network of getting information out there and working. There is a lot of help available. The pressures are intense, and if we don't do something more than what we are going to do even with this current agriculture bill, the ranks of our farmers are going to be thinned and pared even further and further.

I am very well aware of that. We are doing all we can. I have committed one office totally in my district for the agricultural needs and we have a county extension agent who is there. He is a master at working with financing. So we have taken every case on an individual basis.

Dr. Rawls, I thought your comment about the roving computerized wagon really bears a tremendous amount of our interest. I think we ought to take a serious look at this and I will tell you why.

I have watched a few farmers in my area who are able to stay in business and keep the cash-flow coming and keep the farm operation at least viable although they are struggling. Many of them have done it through the use of computers which has shown them where the thin margins of profit might be available. Everybody can't buy a computer, but with the kind of computer system I see working, I think we could work up farm plans for individual farmers, and once a month plug that into a central computer and give them the kind of help that I see computers giving farmers with diversified farming programs.

I think it merits a tremendous amount of our interest and time, and we ought to look into it. I would like to follow up on that. But for the sake—I appreciate the chairman letting me come here and join this committee for a few moments and share some of my thoughts. I can't tell you, and it is not just because I come from rural America, and that is where my roots are, and where my lifelong interests lie, but I don't think there is a more pressing issue before this Congress today than the issue that faces agriculture in rural America.

And, I guess, to close off my comments, the bottom line is that as to whether or not we have farmers, black or white, and to what number of farmers we have and what kind of a farm structure there is going to be rests right up here on the shoulders, in my opinion, to a great extent on what the Congress does with this issue.

Now, we can say, well, we can't do it because of budget restraints, and certainly they are awesome and shape every piece of legislation that comes before this Congress, no doubt about it, those pressures from the budget restraints. But at the same time that decision, and a few years from now, we will look back, and we will say we have fewer farmers or we don't or we have totally changed the farm structure in this country or haven't. And we will realize it is national farm policy that determined whether or not we do it.

The issue has come to rest at a place where I felt it always had to be addressed and either this Congress will do it or it will fail. And if we fail, I think that we have taken another step toward becoming a complete colony where we are shipping all our natural resources abroad. And, I think, literally what we are doing in the case of agriculture is growing dependent upon very fragile countries where production of agricultural products is a very marginal situation, not that old solid passion of agricultural production that is reliable in this country.

We have made a tremendous investment in it. We need to realize what that investment has brought us. I have made more of a speech than a question, but I want to commend both of you on your testimony, and this committee for holding this hearing, and my friend and colleage, Ed Towns, who is in the same class. We are no longer freshmen; we are sophomores. I am glad to be here, and I appreciate you all taking the interest you have shown.

Mr. ENGLISH. Thank you, Lindsay. I think you have made very fine comments.

Representative Johnson, I again want to thank you for your testimony. Let me say that if you do run short of people to offend here in Washington, I have a list, and I would be happy to supply you some candidates. There are plenty of people in this town I would be proud to have you offend in my behalf.

Just let me know any time you would like to cut loose. I will give you a nail or two.

Mr. TOWNS. Mr. Chairman, I also would like to be able to submit my list. Thank you very much for your testimony. You were just fantastic.

Ms. JOHNSON. Thank you so much for the opportunity.

Mr. ENGLISH. Next we have a panel that we will ask to come forward.

Mr. John Garland, attorney at law, District of Columbia, and Lou Anne Kling with the Minnesota Farm Advocate Program in Minnesota. If you all would come forward, please.

Mr. TOWNS. Mr. Chairman, while they are coming, I would like to ask for a moment of personal privilege. I happen to have in the room one of my State senators who I have been talking to about getting involved in agricultural issues. Is she here? Velmanette Montgomery. Where is she?

Senator Velmanette Montgomery comes from Brooklyn, NY. And she reminds me a lot of Representative Johnson.

Mr. ENGLISH. Let me say we are delighted to have you. Particularly all of us folks out in Oklahoma are happy to have all the New York folks interested in agriculture. We will try to reciprocate.

Mr. TOWNS. I would like to introduce the councilman from Queens County in New York City, Councilman Archie Speagner, who eventually is going to join us here in the Congress. That is what they said. I have heard that.

Mr. ENGLISH. Thank you very much for being here.

Mr. Garland, we will let you start off.

STATEMENT OF JOHN GARLAND, ATTORNEY AT LAW, DISTRICT OF COLUMBIA

Mr. GARLAND. Good morning. I would like to thank this committee, particularly Congressman Towns, for inviting me to present testimony today.

For many of us who are involved and concerned with preserving the black family and the black farm in America, these hearings are extremely important. These hearings are coming some 3 years after the report of the U.S. Commission on Civil Rights on black farming in America.

I will try to concentrate my comments on particular facts and instances regarding the enforcement or the lack thereof of civil rights by the USDA and Farmers Home Administration.

For background purposes, from 1979 through 1983 I was a director of a Legal Services Program called Legal Services of the Coastal Plains. That program served 11 rural counties in northeastern North Carolina.

Many of the counties that program served were predominantly black. In fact, comprised many counties in what is known as the North Carolina Black Belt.

Because of the large black population in many of those counties, these areas had a long history of blacks as full-time farmers. In late 1979, several black farmers came to our offices complaining and seeking advice on legal problems they had affecting their farms and their relationships with the local Farmers Home Administration office. The farmers felt that they were being treated unfairly and differently from other farmers in the counties that they were living in.

After several meetings over a period of 2 months, the farmers filed a formal complaint of discrimination against the local Farmers Home Administration office. The program I served in represented them as their attorney and I personally took that case on myself.

After filing the complaint 3 months later, the Office of Equal Opportunity of the U.S. Department of Agriculture conducted a limited civil rights compliance review of the offices we filed the complaint against.

In July 1980, a report of that review was issued. However, Legal Services of the Coastal Plains, the attorneys for the farmers, were not notified of that report. We learned in 1981, 1½ years after it had been issued, that the report found, as they termed it, the following irregularities, and if I have ever heard of a euphemism, that is certainly one.

First, it found that few blacks received loans where payments were deferred over a period of years.

Second, it found a disparity in the number and amount of economic emergency loans to minorities.

Third, the report cited Equal Credit Opportunity Act violations where spouses were required to sign for security on equipment when there was no evidence that the spouse originally signed for that equipment.

Fourth, it found on at least two occasions where black borrowers were required to agree to voluntarily liquidate as a condition before they could get a loan. And that is important. That is important because historically black farmers have been forced out by governmental policies.

Fifth, they found minorities waited inordinate periods between applications and loan approval. Testimony was heard earlier about that problem, and this is a grave problem.

Sixth, it found there was an acceleration of one black farmer's economic emergency loan from a period of 7 years to 1 year without any apparent reason or notification.

Seventh, they found there was an absence of civil rights directives for news releases in the offices of the county agent.

And, eighth, found irregularities in the processing of a loan request for one of the black farmers who filed a complaint.

One particular finding was that a 21-year-old white farmer had applied for a loan, a limited resource loan to go into farming. That 21-year-old white farmer had received $130,000 worth of loans to acquire an 80-acre farm over a period of a year and a half, when similarly situated black farmers had been turned down for any limited resource loans.

I don't know of any compliance reports as in depth as this, but after 7 years of working in this area, I can assure this committee the irregularities and the findings are representative of the types of problems minority farmers are experiencing at the hands of local Farmers Home Administration officials.

I would like to stress here not so much the complaint itself or lack of enforcement by the USDA, but rather the blatant attempts to silence critics and retaliation against black farmers who seek redress.

For example, there was a farmer who testified, I believe, at some hearings 1 year ago, who is not here today, Mr. Tim Pigford, who has been retaliated against. He is in the midst of foreclosure by the FmHA. He cannot get loans.

Of the four original complainants in the complaint I mentioned earlier, two have been foreclosed on, one directly by the FmHA and the other by the local production credit association, which is a Farm Credit Administration administered association.

The decline of black farmers in the coastal plains of North Carolina and other areas in North Carolina and this country continues unabated. This room should be filled with hundreds of people, black and white, to testify about the plantation methods employed by the USDA.

This room is not full because of fear. Farmers who file complaints against USDA officials do so at the peril of losing their land and a way of life that has been theirs for generations.

I believe the issue of retaliation reflects on the integrity of these or any other hearings regarding the lack of civil rights enforcement by the USDA because potential witnesses are not protected against reprisals by officials, particularly local officials. And I am very serious about that.

I am not saying this as an attorney trying to make a case for my client; I am very serious about the reprisal, the retaliation against minorities and others who criticize the USDA and FmHA policies they are subject to.

Examples: The farm of George Norman, Sr., now deceased, one of the farmers who filed the original complaint had his farm foreclosed and sold by the FmHA. That farm had been in his family for four generations. This happened despite repeated attempts by his son, who holds a degree from North Carolina A&T in agriculture, to obtain a loan to acquire his father's farm. This is during the same period I mentioned earlier about the white farmer who received $130,000 of loans with no background or experience.

Willie Matthew, another of the complainants, was foreclosed by the local PCA. He was denied limited resource loans, disaster loans, refinancing of his then, what I consider to be, modest PCA indebtedness.

Local and State level FmHA officials engaged in a compaign against Legal Services of the Coastal Plains and spent a considerable amount of time trying to discredit the program.

As a direct result of efforts of local and State officials in lobbying offices of Senators East and Helms, the Legal Services Corporation launched an investigation of that program. The purpose of that investigation was to stop our efforts in dealing with the problems of black farmers in that community.

I was personally called by an attorney who said he represented a local county official, and that attorney threatened me with a slander lawsuit because of the complaint and my representation of these black farmers.

All the farmers named in the complaint have told stories to me and to others about FmHA officials who taunted them, denied them assistance because they filed those complaints. In fact, George Norman's wife, who has since remarried, told me that once the county official in the adjacent county learned that she was the wife of George Norman, her application for a home loan mysteriously became lost.

These efforts, I believe, demonstrate FmHA officials would rather spend their time silencing critics rather than participating in meaningful efforts to implement programs designed to aid the minority farmer.

It is rather clear in the report of the Civil Rights Commission that the civil rights record of the USDA is abysmal, both in administration of programs and interagency hiring practices. The centralized nature of the agency results in the most important decisions being made at the county level where there is no accountability.

More important, however, the vast majority of civil rights abuses occur at the county level where decisions affecting the farmer's ability to keep his land or plant a particular season are made.

These factors—the lack of accountability, the centralized decisionmaking, and lack of minority employees—result in local FmHA offices in the South and Southwest being run like plantations.

Blacks and other racial or ethnic minorities are treated with contempt and are subject to punishment if they complain.

The Commission on Civil Rights reports and predicts by the year 2000 there will be no more black-owned farms in America. The fact such a possibility exists is a scandal of international dimensions.

Mr. Chairman, if my indictment or rhetoric is harsh, it is because 20 years ago I served as a Marine Corp squad leader, infantry man, and squad leader in Vietnam. Among the reasons I was told I was there was to see to and assist the Vietnamese farmer; to see to it he could own his land and cultivate his land and not be displaced by Communists.

This country has spent millions in military aid on the grounds farmers in Afghanistan are being moved off their land and being displaced by Communists. I can only imagine the propaganda war that would emerge should there be evidence that governmental policies or practices of the Soviet Union was displacing a religious or ethnic minority group from their land.

I think what is happening to the black farmer in this country is an international scandal and needs to be dealt with.

I have some recommendations. One, a special congressional team should be assembled to investigate FmHA practices and policies that affect minority farmers. Without the direct involvement of Congress or this committee, hundreds of minority farmers will be forced off their land and harassed because they dared to challenge.

Two, there must be a moratorium on forecloeures against minority farmers by all agencies of USDA including those that come under jurisdiction of the Farm Credit Administration. We are at a point now in some counties in eastern North Carolina where we have one black-owned farm left.

Three, Congress should establish a private corporation to develop a black farm and land trust fund to foster the survival of black farmers.

A most vital part of our history and culture is tied to the black farm tradition. Preserving black farming will also preserve a part of our history.

Four, FmHA officials at the local level will only respond to clear messages that continued discriminatory practices and retaliation against minority farmers will not be tolerated. Offending officials must be disciplined, removed, or replaced by persons who understand and are committed to nondiscrimination in USDA policies. That is critical.

We have documented evidence where FmHA officials—a county official—has literally informed persons that he intends to go after a particular farmer and that official still sits, still serves, still discriminates.

Five, all USDA civil rights enforcement responsibilities must be taken out of the agency and placed with the Justice Department or other independent agency.

Six, the recommendation of the 1982 Commission on Civil Rights must be implemented.

In closing, I would like to urge this committee to consider some of my recommendations but, more importantly, to look at the plight of the black farmer in America. To consider the fact that there is a group of people in this country, an important element in this country's history, that are going to be displaced entirely, that a critical part of America's history is about to become extinct.

This Congress and this country cannot afford that. The opportunity for us to deal with the problem of black farming in America is slowly slipping away.

Thank you.

Mr. Towns [presiding]. Thank you for your very fine statement. At this time we will hear from Ms. Kling, Lou Anne Kling.

STATEMENT OF LOU ANNE KLING, MINNESOTA FARM ADVOCATE PROGRAM

Ms. Kling. Thank you.

Good morning and thank you for inviting me.

My name is Lou Anne Kling. I am a farmer from southwestern Minnesota near Granite Falls.

On our farm we raise corn, soybeans, and wheat, and have a farrow-to-finish hog operation. I am also a farm advocate for the Minnesota Department of Agriculture, along with 14 other farmers.

We have a contract that pays us for 20 hours of work a week at $6 per hour, plus mileage and telephone expenses. The funding comes from the State legislature. Most advocates work with between 75 and 80 farmers each and handle close to 200 informational calls a month.

As you can see, there is a lot of hardworking and committed people who are putting their efforts and time into working with the farmer having financial difficulty. We are far short of enough people to help all those who call.

If you will look in the information I passed out, there is a chart of our hotline calls that we have. March and April 1985 we were getting 400 to 500 calls per month for help.

I would like to see 50 or more advocates around our State so we can cut down on lost time because of travel and, spend that time with each farm family.

Also in the packet there is a map of the State of Minnesota where our advocates are located. We asked for more funding this year to put more people on. We asked for $210,000 a year. But because of the budget constraints, we got cut to $70,000.

We do have a grant that we got to help with training, and we have also started a fund for donations from supportive people. Farmers want to pay something for the services if they can. It is a free service to the farmers, but a lot of them like to pay their own way, so it is a place where they can send in donations, along with other folks that think this is an important program.

Some of the areas that we help farmers in are doing their financial sheets, cash-flows, helping them with bookkeeping, farming practices. In Minnesota, we don't use the CFS; we use the Finpack computer system with the extension. There are good and bad points to that, but we are trying to work together with them in using that.

We help represent them at hearings and just plain going with the farmer to his lender and help open up lines of communication again and try to get a workable solution.

One of the examples: I was out in Montana doing a training session and the farmer raised his hand and wanted to know when the limited resource interest fund had expired at Farmers Home.

I said: "Well, it hasn't." He said: "I just got my loan and I asked about that because I read about it in a magazine." He said: "My supervisor said: 'Gee, we should have worked a little faster on this; that expired last month.' "

I said: "Well, no, that is not true. We ought to go through your file at Farmers Home and find out why you didn't get it." He said: "Well, my office is right in town here. Should we run over there?"

We went in and walked up to the counter and told the supervisor we wanted to look at his file. I have never seen such a scared person in my life. That supervisor was guarding that file with his life, and you couldn't look at that and he didn't know where to go to find out information, if it was legal for the farmer to look at his file.

He had to call his State director. It took close to a half hour before he finally realized we could sit down and look at it.

We had to sit in his office, being guarded by him, so that we didn't do whatever to the file. And as he sat and listened how I was explaining to the farmer what was in the file and why it was in there, and trying to figure out why he hadn't gotten the low interest money, then the supervisor said: "I guess you are no enemy." He said: "I guess you are just really helping the farmer." He said: "I thought you were going to sue me."

Since that time that farmer has gotten a good working relation with that supervisor, did get his disaster loan processed, is working on some refinancing, but it is opening up lines of communication and letting him know that the farmer has some rights.

We also give the farmer time. We sit and listen to him. We try to understand what his problems are, how they happened, how he can change it around and prevent it from happening again.

Some of the cases I have worked with where the bankers' and farmers' communications have fallen down, I have gotten the farmers to understand how they have got to look for information; they got to pursue some of that. And that goes along with how we must be careful not to let them—the farmer—become dependent on us as the advocate, but our goals are to help him become his own self-advocate and then in turn be helping his neighbors.

The advocate also helps him find needed referrals if they need legal, medical, welfare, mental, any of those kinds of other helps.

We work with Legal Services, which provides free legal help to farmers and to other poor people, and in turn the Legal Services does help us put on public informational meetings on borrowers' rights for farmers.

The book that you also have in your packet on the Farmer's guide to FmHA was a joint effort between the Legal Services and the Advocate Program. We are getting calls from many States for these books. We have sold out our third printing on them.

We are now updating the book and hope to get out a new book this fall. And again, there are problems with that because of funding. Everybody is short on funding.

We have also put out factsheets—they are in your packet—on quick one-page sheets for farmers to look at, different helps on finding an attorney, mortgages, securities, those kinds of things.

Both men and women make up the list for advocates. Some have lost their farms, some are in the middle of resolving their own finance problems, and others are in no danger today of losing their farm but see it could be around the corner. But they are all totally committed to helping and keeping their neighbor.

It seems strange when a neighbor is sick or hurt everyone is there to help, but when he has a financial problem they turn away. We need to change that, that is, when the farmer desperately needs the neighbor the most, so he knows he isn't a failure, that seldom is it his fault that the low commodity prices, along with added problems of livestock disease, crop loss, high interest, devaluation of his chattel and real estate are the real problems.

A farmer who was well known in his community, well respected, was in to PCA in December. PCA said you are in good shape, you do not have anything to worry about, set up his operating budget for 1985. By January 30, with the slash of a pen they had totally devaluated all of his chattel and real estate. He did not have any equity left for his loan. He was sitting in that office January 30 setting up a sale bill. So within a month and a half they took that farmer from being well off to selling him out.

Those are the kinds of people we like to get in there and help. We have had six training sessions for the advocates in Minnesota covering such items as bankruptcy, financial paperwork, loanmaking, state laws covering security mortgages, contracts, Farmers Home Administration rules and regulations, tax problems and options, and taxes are becoming a very serious problem with capital gains tax, when the farmers and the lenders give and take deed back and discount loans, as well as taking part in other sessions held by law groups and other interest groups.

We maintain a toll-free hotline into the attorney general's office where the farmer can call, and he is given the name of an advocate in his area. Our program started in March 1984 with 35 people. The Agriculture Department had some unused funds that were used for startup money. The legislature appropriated $50,000 more in July 1984. The program was started mainly to get Farmers Home to lend some operating money, but we soon found out there was a lot more problems besides just 1984 spring operating.

The story on how this program was all put together, the volunteer people that were helping before we got the program into the Agriculture Department. See the story in your packet on those details. With less funds, we had to cut back to 15 people, but one of the big results we have seen, and I think probably the credibility of our program, is the increased funding that was brought into Minnesota in FmHA programs, an increase of 81 percent in 1984 in Farmers Home loans. At the time they do the pooling of funds at national level, we put pressure on the State by getting applications in, putting them into the right loan programs, and asking for all servicing regulations, there is a chart in your packet on the different funding levels Minnesota got in 1984. But it totaled 81 percent more funds we moved through the Farmers Home agency. We also got the county FmHA offices to start using the programs that were in effect: limited resource rescheduling, deferrals, restructuring of debt.

A farmer comes to the advocate and he has a denial letter, he will appeal because he was $10 short on his cash-flow, all you have to do is rework the operating loan using limited resource interest and it will cash flow. Example: a $50,000 operating loan at regular interest—10.25 percent—the interest cost is $5,125 per year. Limited resource interest is 3 points below regular interest or 7.25 percent, so the reduction is $1,500—7.25 percent times 50,000 equals $3,625—that can make a big difference in the cash-flow. They just were not using it.

I know a couple of county supervisors told me this spring, we are giving everybody limited resource. You guys give us so much grief if we do not use it and with the low economic prices everybody qualifies anyway. So we can make a difference when we are there with the farmer.

We have also brought the concerns to the State legislatures of the State laws that were not in the best interest of the farmer. Working with the State Agriculture Department we have gotten some laws changed in Minnesota this year. One of the laws was the garnish on farmers production checks. Wage earners have full protection in Minnesota. The farmer had none. Example: We were able to get a deferral out of PCA for a farmer, the feed company stepped right in and garnished the whole check this year. We got a new law written whereby no creditor can take more than 25 percent of any check of a farmer. When the program first started, it was hard for the lenders to deal with an advocate, thinking we were there to start trouble, but now after proving we are there to help not only the farmer but also to understand that the lender has rules to follow, we have a much better working relationship.

I just want to share with you a part of a letter that I got from a corporate banker after I had worked with him and a farmer.

"At this time I wish to express my thanks to you on the farmer situation. It is my opinion that without your help and assistance that it would not have been as easy to work through to find a solution on this farm problem."

I was very excited when I got that letter. Why do I believe this program is important? Farmers have lost trust. They have lost the trust in government, lawyers, politicians and they have lost faith in how the system is suppose to work. The very people that the farmer listened to in the 1970's who told him to get bigger, better, and here is the money to do it, are now the same folks who are telling him he is a poor manager and he is overextended.

We are trying to bring some of that trust and faith back to the farmer, let him know what his rights are, pursue his rights and that can make a better working relationship between the lender and farmer.

Example: One farmer was scared to death of his county supervisor at Farmers Home; he did not sleep the night before he had to go see him. After working with an advocate he now knows what his rights are and how he can pursue them. He was telling me a couple weeks ago, "it was fun to have that county supervisor come out so I can impress on him how well I have done." It has given the farmer some pride back, gave him some hope and that is what this program is about.

But to do all of this I feel we need to keep this on a farmer-to-farmer relationship, simply because we have got to let him know someone cares, that we are there to help him. As a fellow farmer we can relate to the problems in farming and understand that when the cows need feed they need it today, not next month or next year, if they are to produce like normal. That it is not bad management when your cows need feed today, the supervisor does not get you the money until next week, which causes a drop in milk production; that when the corn is not planted on time it cuts your yields; to know the feeling when you do not have money to buy food to put on the table, and you have to go file for Food Stamps when the lender will not release any money from sales of farm products and there is not enough dollars to go around.

Someone has to be there to understand and care. It is pretty hard to understand and be compassionate when your job ends when you shut the light off at 5 o'clock and go home, you have a paycheck in your hand and you never have to experience telling your family why you cannot provide for them, that the lender took the whole check and you did not have any way to stop him.

Jim Massey from Legal Services and I have been in about 10 other States helping start advocate programs doing farm law and advocate training. We have got four other States right now wanting to set dates for training. Some of the State programs are going good, some are having problems. Again, shortage of funds to start the programs is the issue. We must keep the Direct Loan Program in Farmers Home agency. It is desparate plea that we keep that program and that there more funds put into it. With the Farm Credit System only wanting the large elite farmers—the good farmers, the banks just flat out saying they want to get out of agricultural lending, we must have some place to take these farmers where we can get low-interest, long-term money to keep them on the farm, while we continue to fight for a price. We are losing a generation of farmers because of a loss for them to finance a farm purchase.

The things that need to be changed, I will agree with the prior testimony. There are gray areas in the regulations and they twist and turn the gray areas together with the political powers that are very evident in the county level.

People wonder why I spend so much time and effort in wanting to keep the Family Farm System and help farmers pursue their legal rights from the lendees. I am a Farmers Home borrower. I have never been, but I have three sons who want to be farmers, I have two daughters who are already farming. They are having a tough time making ends met. They do not know from year to year if they are going to be able to stay on the farm, then I sat down and looked at the plat book and counted in my township, 1970 we had 96 full-time farmers, Today we have 36. What happened to them? I looked around and schools are closing, towns are dying, the storefronts are empty. I asked "Why doesn't somebody do something about agriculture?" And then I realized I was somebody.

Thank you.

Mr. **English**. Thank you very much. [Applause.]

Ms. Kling, Dr. Rawls proposed putting together a computer system to take out to the farm to help individuals out. I know that in Minnesota the Farmers Home Administration put out money and paid for the development of a program that would do just that. Do you have access to that computer? Have you ever been able to use that system?

Ms. **Kling**. Well, right now we do use the system. We have a strange arrangement. We do the input worksheets with the farmer, using the farmer's past history of production, yields, and expenses, making sure that the printout reflects his own farm, and he knows and understands what, where, and why each figure means but at this time we are not allowed to use the disks and machines and finish with the printout. The farmer then takes the paperwork to the extension or farm management office to do the printout. We are trying to overwork some of those problem areas. Some of the people do let us come in and use the machines, but they are not supposed to let us until we have had adequate training. At our last training session, we did bring in an extension worker and he worked with us on the computer sheets. But the problem comes when somebody else does the inputs like FmHA and the farmer or his history does not help or understand what numbers are being used, then the printout becomes a university average farm. It is not Mr. Farmer's farm and does not represent a workable plan. So we try to work with the farmer on the input sheets to make sure that he understands where those numbers come from and why they are put in there.

Mr. **English**. Mr. Garland, earlier I touched on the form used by the Farmers Home Administration, the new coordinated reporting form that they have put together. Could that form, in your opinion, or has that form, in your opinion, been used to discourage people from applying for loans?

Mr. **Garland**. Yes, it is used to discourage people. It is a very long, very complex form. When you are talking about farmers with a limited educational background and limited experience, that form can be used and has been used as a basis to deny loans, one, and, second, to even discourage participation in FmHA programs.

Mr. English. Thank you.

Mr. Towns.

Mr. Towns. Thank you, Mr. Chairman.

Mr. Garland, what can we do legislatively that might change the situation? I have heard throughout the morning that the Farmers Home Administration deliberately goes out to destroy small farmers, and particularly black farmers. What can we do to change that situation?

Mr. Garland. There are a number of areas. I know the Rural Coalition has submitted some proposed legislation. I have a draft of one piece of that legislation. The piece I helped draft dealt with the problem of heir property. I am sure you are familiar with that, Mr. Towns. Very often you may have a farmer who is farming land that is owned, that is heir property; that farmer cannot get a loan from a Federal Government Program because he does not or she does not have complete title to that property. As a result the property is very often lost and it is unused as an income producer.

Legislatively I believe what can be done is a method to give a loan, provide Federal loans for farming purposes to persons who are on heir property, so long as those heirs who are identified have signed a release and authorization.

Second, if States, and I think Congress can do this, if Congress can encourage States to modify its current heir property laws by virtue of the purse strings, for example, you have States now that permit and require partition sales of heir property land should one heir move for a partition sale. I do not know if you have heard the stories where you may have 15 heirs and one heir happens to be living in the Bowery—I am not going to mess with Brooklyn—happens to live in the Bowery of New York.

Mr. Towns. Thank you.

Mr. Garland. He lives in the Bowery and is essentially a derelict. I have heard and seen stories where someone who wants to acquire that land will track down that derelict and for the price of a drink or the price of several drinks will get that one heir to sign his interest over to a third person. That third person then can force that property be sold at a partition sale.

I think one way to do it legislatively is, one, permit sales of land, permit loans be made to persons who own heir property and who are working heir property; second, to encourage States to modify the heir property laws to not permit this one person to force a partition sale. There are other ways to deal with some of these problems, and I will be happy to talk with you about this in depth. Legislatively I think you can deal with the USDA and Farmers Home Administration itself, its hiring practices; the efforts at requiring two of the three county committeemen be elected is a good effort. Quite frankly, I do not think it is going to have any results when you consider, for example, there are counties in North Carolina that are 65 percent black in population and have no black elected officials. I mean why would it be different to expect that because of certain geographic factors you are now going to be electing blacks on county committees?

I think recommendations I have made—and I will be happy to work them up with you—are matters that can be dealt with legislatively: The establishment of a private corporation similar to Legal Services Corporation that will deal with the problem of black farmers, creating a land trust fund, creating a mechanism to provide legal and other kinds of support to black farmers.

Right now I guess what you can do is amend the Legal Services Corporation Act to permit the Legal Services Program to provide assistance to farmers. In many States, particularly now with the new corporation board, Legal Services Programs are being discouraged, in fact, investigated if they are representing farmers. Farmers appear to have a lot of economic resources. On paper a farmer may own $200,000 worth of land and equipment; practically that farmer may be $400,000 in debt. If you happen to be black in that situation and you do own some land, the oppportunity or the likelihood of that farmer finding a lawyer to represent his interests are nil. And I know this from experience.

I think there are some things that can be done legislatively to deal with this problem, and I have some suggestions and I would be happy to discuss them with you more fully.

Mr. Towns. I look forward to you doing that.

Ms. Kling, you have stated there has been a tremendous amount of success in getting farmers loans in Minnesota. Throughout the morning most people have said that it is too little too late or not enough. What do you attribute your success to? This is amazing.

Ms. Kling. When we started the program, that is what the problem was and we still have a big problem with that. We have not conquered all, but the problems were, first of all, FmHA was not letting them put in the application for loans, and then sitting on the application playing a lot of games within the county committee, and just wasting time hoping they would get tired of it and go home and have a sale. When we started helping the farmer, and making FmHA follow the regulations that they are supposed to follow, that is when we started forcing those county offices to abide by the book, also to get the information to the farmer so he knows what to do.

Mr. Towns. When you started out initially, you had the same kinds of problems everyone described this morning. Since last year or so have you had an opportunity to build up a relationship with them.

Ms. Kling. We still do have many problems. They try all the time to get around the regulations for several reasons, one, they don't know the regulations; two, they don't understand farming; three, they are told to follow other policy; four, they don't care and sometimes I personally feel are lazy; and five, poor training and no watch or close supervision the county offices. We are doing loan denial appeals all the time, we take full advantage of the appeals system within the Farmers Home Agency, I am not so sure that it is beneficial to the farmer, in the fact that when you have the district office hear what his county office decided; I am not so sure there is much value to the appeal process. But we do take them through the appeals process and force these people that are making decisions to be specific on denial reasons, trying to hold them accountable for the decisions they made and try to make them overturn the decisions based on their own regulations.

We have had a lot of them turned around, a lot we are still in the appeal process. We have only worked at it for a couple of years. It is going to take a long time—that agency has been there for 50 years. I would like to see and help Congress change some of the regulations. And to tighten them up, more specific.

Mr. TOWNS. Is it safe to say that the average small farmer out there views the Farmers Home Administration as their enemy?

Ms. KLING. Yes, they do, very much.

Mr. TOWNS. That's sad. When you have an agency that is designed to assist the very people who view them as the enemy. That is a sad situation.

Ms. KLING. Yes, it is. They are their enemy. A lot of farmers have said to me, and this makes me upset, that the practices and the hoops they are trying to put us through, they are trying to force us into being crooks.

Mr. GARLAND. In addition, many, many minority farmers view the agency as a handmaiden of agribusiness in terms of forcing them off the lands, so the enemy and also the handmaiden.

Mr. TOWNS. Mr. Chairman, I yield back.

Mr. ENGLISH. I want to thank both of you for your fine testimony. You have been very helpful to us. Thank you very much.

And our last panel today will consist of Leon Crump who is with the Rural Advancement Fund of South Carolina; George Ammonds of the United Farmers Organization of North Carolina; and Ralph Paige, executive director of the Federation of Southern Cooperatives of Georgia.

I might say, too, to our witnesses that if you do have written statements please feel free to submit that written statement for the record and to summarize your testimony. I should point out George Ammonds is here instead of Mr. Pigford who was named on the witness list.

STATEMENT OF LEON CRUMP, RURAL ADVANCEMENT FUND, SOUTH CAROLINA

Mr. CRUMP. I also would like to say, you have to forgive us for our dress. We are victims of Hurricane Gloria. Last night on the way up our car died, and we spent all night on the side of the road and got here about 11:30. When we started out yesterday evening, we had two other farmers with us who live on the coastal area who felt their farms would be in danger, so they chose not to come.

Mr. ENGLISH. We commend you for making the effort and appreciate it very much. We are sorry you had such a tough evening.

Mr. CRUMP. I hope to be brief. Let me start off by saying my name is Leon Crump. I work for the Rural Advancement Fund. It is a nonproft organization based in North Carolina with staff people in South Carolina. We work with farmers with farm credit problems, and we do a hot line 2 days a week where farmers can call and get confidential information about their farm credit problems.

I also farm vegetables and hogs with my brother in South Carolina.

I would like to take this opportunity to bring you up to date on some of the things we have been doing about black land loss. In your package, you might find a package saying "Black Land Loss, A National Crisis," and it will cite some of the things black and white farmers developed in August in Montgomery, AL to make black land loss a national issue.

The reason we are here today is to ask you to support Congressman Towns' five amendments.

Also you might find in your package some proposals presented to the Black Caucus last year, May 8 of last year. And those five recommendations should be circled on your paper there. It is restoring the minimum quota that requires 25 percent of the farm ownership and operating loans go to limited resource borrowers and to eliminate the arbitrary and unequal treatment on the county level by county committee members, reduce discrimination in Farmers Home loan processing time, and reform the Farmers Home appeal system to make it fairer and truer to have their decisions challenged, and a fifth one, to fund special extension agents for each county whose sole responsibility would be to assist minority and small and limited-resource farmers.

There is a possibility, too, that a sixth one will be added, and it is circled on your paper saying "maybe," and that is to eliminate the supervised bank account. The purpose of the conference is to make black land loss a national issue. If we are going to do anything about blacks losing farms, we must start immediately by bringing young black farmers into agriculture.

Some of the statistics you will see, and I am only going to use two statistics for you today, throughout this country there are only 181 black farmers under the age of 25 who own their own farms. That is a sad commentary to find out within this whole country, there is only 181 black farmers under the age of 25.

There are a number of organizations within the South working on black land loss. We view this as a positive effort, and we need to take all of these organizations and some kind of way combine them or start talking anyway, so we can be a little more effective.

On the second-to-the-last page of my testimony, you will see some problems that is listed that cause land loss, and the first eight deal with land loss overall for white and black farmers, and the last six deals with black farmers. I would like to run down them quickly.

The one that deals with farmers overall is the farm credit problems, marketing price and supply management, technical assistance, research and education, legal service access to land stewardship, the image of a farmer. Let me say here the image of a black farmer being able to own a farm, small acres of land, is racist in itself. To try to keep us small and do vegetables and small acres, that is not fair. We are competitive and capable of working large plots of land also.

Hunger on the global and domestic market and affecting black farmers, in particular, the lack of access to credit. That should be from the U.S. Department of Agriculture, which is a mistake.

Knowledge—lack of knowledge of the legal rights, access to land and self-sufficiency and racism, that is documented by the U.S. Civil Rights Commission study in 1982 stating Farmers Home was the cause of, in fact, some farmers losing land because of their policies.

To demonstrate the situation that black farmers are facing and just to use an illustration, we will take both my hands and say these are airplanes, and they are identical and flying around at 500,000 feet, or however high they are flying, and one plane begins to fall and both of them are going down, but one falls 2½ times faster than the other, and when you find black farmers are losing their land 2½ times faster than the white farmers, it should be understood the one falling 2½ times faster should be addressed. We find these things are not being done.

I would like to thank you for this opportunity for coming to testify before you this morning, and I would like for you to get a chance to read my written statement, along with "Black Land Loss Is a National Crisis," along with other recommendations we made to the Black Caucus last year. Please try to push for Congressman Towns' five amendments. Thank you.

[The prepared statement of Mr. Crump follows:]

Rural Advancement Fund
and
United Farmers Organization

My name is Leon Crump. I work for the Rural Advancement Fund which is based in Pittsboro, NC. I live and work in South Carolina. RAF is a non-profit, non-partisan organization founded in the 1930's to work for justice for rural people in the Southeast. It works to help keep family farmers on the land. We operate a hotline two days a week (Wednesday & Thursday), from 11:00 a.m. to 2:00 p.m. (803-537-2541, 803-268-3452 (S.C.); (919-542-5292 (N.C.). We give free confidential information to farmers on credit problems and borrowing information. We also give workshops and assistance to farm communities that want to organize to have more voice in farm communities that want to organize to have more voice in farm policy. Right now, our project is working with North and South Carolina farmers in a two-state organization, which includes 23 county-level grassroots groups. The farmers call themselves the United Farmers Organization(UFO). Forty S.C. farms are lost each week, 700 S.C. farms were lost in four years during 1984. Half of all FmHA borrowers are behind on payments; there has been a 47% drop in S.C. net farm income in 10years. At the consumer's expense, there has been an 8% increase of food costs every year but a 77% increase to handlers, processers, and retailers.

I would like to take this opportunity to up-date you on the progress we have made working on Black land loss. First look at the paper in your package "Black Land Loss a National Crisis." This paper was written in Montgomery, Alabama, August 22-24, 1985 by black and white working farmers and church leaders form the midwest and southeast. Everyone participanting at the conference agreed that 1985 is a make it or break it year for thousands of farmers white and black. This is the most critical time for farm legislation since the Depression. Black farm loss is not only due to this farm crisis, but also to additional unique difficulties. There was strong agreement that Black farmers are unable to get adequate loans from both public and private lending institutions. They lack adequate technical assistance, marketing and research from the U.S. Department of Agriculture. They are short of information on their legal rights. And they face racial prejudice.

Existing Black farmers are unable to expand their operations and young Blacks are unable to acquire farms. This loss of access to land will cause the loss of an economic and political base for Black America.

Racism on both the local and federal levels by organizations and institutions mandated to assist all landowners and farmers. As the Civil Rights Commission stated, FmHA has "failed to advance and in some cases hindered the efforts of Black small farm operations to remain a viable force in agriculture". There is a racist image of Blacks being capable of operating only small acreage.

It is imperative to understand that although the loss to its land base will be devastating to Black America, it will also have an adverse effect on America in general. The loss of Black owned land will mean an even greater increase in the already deplorable rate of unemployment for Blacks. Black farmers tend to have less off farm employment than their white counterparts and are therefore more dependent on their farm for survival.

The loss of more Black owned land will mean the further loss of food self sufficiency for an entire people. As Black farmers are unable to produce food, Black people will be increasingly dependent upon multinational corporations to feed them. Furthermore, since many small Black farmers grow the majority of their family's food, they will be forced to join the ranks of the hungry when they lose their land. In many rural communities Blacks have gained significant political control and are moving into the area of economic development and independence.

Should Blacks be forced to leave their communities or to again become dependent on a white controlled system through economic and political pressure, the progress so many, both black and white, have fought and in some cases died for will be set back over 25 years. As black and white farmers gathered together, we feel that God's justice can only be done by giving black farmers the stewardship of the land that is rightfully theirs.

The conference was organized by Black and White farmers working with The American Lutheran Church's Rural Ministry Program, the ALC Hunger Program and the Alabama Rural Council. Represented at the conference were members of the Federation of Southern Cooperatives, United Farmers Organization, North American Farm Alliance, Community Farm Alliance of Kentucky, American Agricultural Movement, Wisconsin Farm Unity Alliance, Rural Advancement Fund, Alabama Rural Council and National Farmers Union. Organizational representatives agreed to take the

Page 3.

goals of the conference back to their organizations for action.
Adopted by "Black & White Farmers Together Conference" on August 22, 1985 Montgomery, Alabama.

Now I would like to bring your attention to the paper labeled "To: U.S. Congressional Black Caucus, From: The United Farmers Organization" dated May 8, 1985. We have made these recommendations to the Black Caucus, with congressman Ed Towns' help we've been trying to get 5 of these proposals added to the 1985 Farm Bill.

The five recommedations are circled on your papers: (1) Restore the original minimum quota to require that at least 25% of farm ownership (FO) and operating loans (OL) go to limited resource borrowers of FmHA. (2) Eliminate some of the arbitrary and unequal treatment on the county level by electing county committee members. (3) Reduce discrimination in FmHA loan processing by setting time limits. (4) Reform the FmHA appeals system to make it more fair and a true opportunity to challenge un-fair decisions. (5) Fund special extension agents for each county whose sole responsibility should be to assist the minority, small and limited resource farmers. There is a possibility that a number (6) will be added to eliminated supervised bank accounts.

They also discussed how to elect fair representatives on the FmHA county committee and how to limit some of the county FmHA supervisor's powers.

These recommendations will be coordinated by Brenda Pillors, an aide of Rep. Ed Towns, in Washington D.C.

The purpose of this conference was to make Black Land Loss a National issue, with only 181 black farmers under the age of 25 in the United States, we must make a commitment today to stop land loss. We must immediately begin to bring young beginning black farmers into agriculture.

In North Carolina there is the Land Loss Prevention Project at North Carolina Central in Durham, N.C., Rural Advancement Fund N.C. and S.C. Federation of Southern Co-op, Emergency Land Fund and South Carolina State College, South Carolina Department of Agriculture, Clemson University Extension Service, South Carolina Legal Services Association, Governor's Division of Rural Development, South Carolina State Family Farm Development Authority, Penn Center Farm Development Program, Frogmore, South Carolina, South Carolina Association of

Human Service Agencies, Rural Advancement Fund, Cheraw, South Carolina, and 1890 Extension Program.

There must be an all out effort by their organizations and others to stop loss of land. The last 9 organizations have agreed to meeting monthly to discuss this very serious problem, the Advisory Committee has decided to approach this problem from an educational perspective--that is to develop educational materials and sponsor conferences and workshops designed to help these small farmers better understand the importance of their landholdings. The prime focus would be on the importance of making a will, estate planning and general overall farm business management and marketing procedures.

Hopefully you have recieved a letter from Linzie M. Muldrow, Acting Chairman, P.O. Box 1862, S.C. State College, Orangeburg, S.C. 29117; telephone number (803) 534-0660 along with a proposed budget for land loss in South Carolina. The 1890 Program are not funded adequately to maintain a program.

1985 is the year for building coalitions with everyone to stop the loss of farm land. Once again Black Land Loss-Major problems:

1. Farm credit problems
2. Marketing
3. Price & supply management
4. Technical assistance, research & education
5. Legal system
6. Access to land/stewardship
7. Image of farmer
8. Hunger - global/domestic

1. Lack of access to Capital
2. Inadequate technical, marketing & research assistance from ASCS
3. Lack of knowledge of legal rights
4. Access to land
5. Food self-sufficiency
6. Racism

I'd like to thank you for this opportunity to present this information for your consideration and help. By helping us to get the Federal Home Administration and USDA enforce the laws that are on the books you would assist all farmers.

Please let us know what you think about our recommendations, and let us know if we can be of any assistance. Feel free to contact Leon Crump.

Where there is no struggle there is no progress.

For Family Farms,
Leon Crump
RAF Representative

Van Wright Scott
U.F.O. Steering Committee

Mr. ENGLISH. Mr. Ammonds.

STATEMENT OF GEORGE AMMONDS, UNITED FARMERS ORGANIZATION, NORTH CAROLINA AND SOUTH CAROLINA

Mr. AMMONDS. I would like to say good morning, Mr. Chairman, and members of the panel. My name is George Ammonds, and I am a grassroots farmer. I live in Kenansville, NC, in Duplin County, where we are now in the process of building the Nation's largest processing plant, which is Carolina Processors.

My concern and that of black farmers in the United Farmers Organization of North and South Carolina is that black farmers are losing their land 2½ times faster than their white counterparts.

The problem of black land loss in this country is greatly due to the inaction of Farmers Home Administration in assisting black farmers and the outright discrimination we face in the area of agriculture credit and debt repayment. The unequal distribution of agricultural credit and the denial of due process in obtaining farm ownership and operating loans really makes it difficult for black farmers to survive.

As I am sure the committee is aware, the 1982 Civil Rights Commission report outlined a number of criticisms of FmHA's relationships with black farmers. I would like to quote from that report:

> One, the main problem, though, is the failure of USDA—through the Farmers Home Administration—to provide credit and low interest loans to black farmers.
>
> Two, FmHA has failed to advance, and in some cases may have hindered the efforts of black small farm operators to remain a viable force in agriculture.
>
> Three, at this rate of loss there will be virtually no blacks operating farms in this country by the end of the next decade.

We black farmers see ourselves as an endangered species, or I sometimes have seen in history where the United States has drafted the eagle as an endangered species, and the black farmer sees himself drifting in that same direction.

According to the 1982 agriculture census, between the years of 1978 and 1982, there was an increase in white farm operators of 1.4 percent as compared to a decrease of 6.2 percent in black or nonwhite farm operators over the same period of time. In North Carolina, which has the largest black population of farmers, there was a decrease of 9.8 percent in white farmers in comparison to a 23.2-percent decrease in black or nonwhite farmers over the same period of time. With the same economic conditions in the marketplace, the percentages for black farmers, as you can see, are much greater than for white farmers.

The loan amounts for black farmers are also much lower than for other farmers. Black farmers received only 1 percent of the total dollar amount of loans under the Farm Ownership Loan Program, 2.5 percent of the operating loans, and 1 percent of the soil and water conservation loans. Loans to black farmers, in fact, declined in all programs from 1980 to 1982: for farm ownership loans, from 3.1 percent to 1.4 percent; and for operating loans, from 7.9 percent to 4.5 percent.

Under the Limited Resource Loan Program, which in 1978 was created by Congress to expressly provide low interest loans to farmers with limited resources like minority farmers, the low interest loans to black farmers declined by 68 percent from 1980 to 1982. Thus, only 1 of 10 black borrowers in 1982 received low interest loans. This program would ensure a continual flow of young and beginning black farmers to ensure that blacks remained in farming.

In 1982, $120 million in allocated funds for this program went unspent. North Carolina, once again, underspent their limited resource allocation, and nationwide it is estimated that 5,000 additional borrowers could have been served if the limited resource loans had been fully expended.

The Reagan administration has sought unsuccessfully thus far to kill this program. Without this program of financial assistance, black farmers cannot survive in this modern era of education and technology in agriculture. Farmers Home Administration was originally established in the Depression era to assist financially stricken rural homeowners and farmers. By law, it is the lender of last resort. They should be lending to those farmers who have no alternative lending source. The facts indicate that FmHA loans follow another pattern, however.

The 1982 census of agriculture showed only 181 black farmers owning their own farms as compared to 7,716 for whites in the United States and only 11 black farmers in North Carolina as compared to 200 farms owned by whites. These statistics apply to farmers who are 25 years old or younger. Black farmers 54 to 64 years of age increase in numbers, while white farmers decrease, showing a more orderly turnover of farmland.

I would like for all of you to have these attached forms which will bring you closer to what we will talk about in the next paragraph. Some of the things we have discussed are on the attached sheet. It came from USDA.

Land is important to the survival of any people. With the modernization of agriculture, according to historian Dr. Marsha J. Darling:

> The family farm in general in America, and the Afro-American subsistence level family farm, in particular, have been impacted by the penetration of capital into the agricultural sector, producing the aggregation of farmlands into larger and larger units, with fewer and fewer blacks as owners.

For example, in my case, just the ability to maintain my loan at a lower interest rate will determine whether I survive as a black turkey farmer in North Carolina.

I would like to close with this quotation from Booker T. Washington, which I believe reflects accurately our situation today: "No country can be prosperous unless the people who cultivate the soil own it and live on it."

Thank you.

Mr. ENGLISH. Mr. Paige.

STATEMENT OF RALPH PAIGE, EXECUTIVE DIRECTOR, FEDERATION OF SOUTHERN COOPERATIVES, GEORGIA

Mr. PAIGE. Thank you. You have a statement I have submitted for the record here. I would like to express my appreciation on behalf of the Federation and Land Assistance Fund constituency in the Southeast, and I think this is a very proper hearing and timely, given the fact the farm bill is being considered at this time. I hope it would be seriously considered and that some of the politics can be—I don't know how you downplay them, but you should consider you are dealing with the lives of folks, and I would hope Congress would deal with the community altogether.

I would like to underscore what everyone has said today, very briefly, that we are experiencing a national crisis with black land loss. And we are experiencing that, it is not going to get any better. From where we sit at the Federation and the type of things we do, we see, we are totally in agreement with the Civil Rights Report that states that there will not be any black land or small black farmers in the year 2000. That is important. It is important everyone recognize that.

For the life of me, I can't understand why an agency as important as the Civil Rights Commission's Report is not taken seriously by the type—the USDA agencies, and implement some of their findings. You know, it does not come from the organization, it comes from research, and it comes form Government research. It is important we still want that recognized.

And I will just talk about some of my report to make it short. Over 46 percent of black farm families are below the poverty level now, and these statistics are from 1976 or so, compared to 15 percent of all farm families. Black farmers are three times more likely to be poor and in poverty.

This is one of these things, you have heard the statement "You pay now or you pay later." To work with the farmer, it costs. Not to work with them, it costs. It costs somebody. It may very well cost Congressman Towns in New York, when you got migration going up, unemployed, untrained, leaving the rural areas. This is not a new problem with black farmers. It is just now becoming recognized, and we are here today to say the crisis is still there, and it has reached a catastrophic proportion.

Now, something has to be done with it because you are going to pay in excess of $15,000 to support people on welfare if they are displaced from the farm. You have heard folks talk about the educational level, you have heard folks talk about the skill level of black farmers and family farming, period.

Also the family farm, you are going to see it as a new trend of poverty. And those folk are family farmers, both black and white, who are getting into the welfare lines. These are communities. It is serious, so we are going to pay it. When you got 2 million farmers and—I mean, those statistics apply across the board. Come 2000, you won't have any of those farmers the way it is going now unless something is done and serious policies from FmHA and regulations in the farm bill, something that is not enacted now.

I won't preach. OK. Most Government policies and programs in agriculture for the last century have been enacted in the name of family farmers, but have been utilized to strengthen and enrich the large farmers and the corporate sectors in agriculture.

I want to make this point—make this statement. The PIK Program, 10 percent of the largest farmers receive a disproportionate rate of 75 percent of those benefits. That is—you know, it was not set up. We need to have something for small farmers.

Also, less than 5 percent of the land grant college and extension service research has specifically focused on the needs and problems for limited-resource farmers. That is 5 percent now of all the dollars. And we sit here this morning, and I am not belittling it or anything, I support the land grant colleges very strongly. Our organizations support—we are working with joint programs with both Tuskegee, Fort Valley, and some of the other schools right now.

I also state this is not nearly enough money when you can hear they are serving 39 people, 40 people. They are doing a fantastic job. Research is important for black farmers. Research is important for the family farmer, research is important for the farm under 100 acres of land, not to speak of the ones with less than that, for these type people. We need that.

But why, though, $100,000, and say we are doing the job? It is ridiculous to hear them talking about programs like that and come back and say, "My budget is $100,000." This is 1986, and we need to add in the farm bill, and I will mention that later, to have money for research and outreach and technical help for small farmers. I mean real dollars like it has been for the large farmers and that kind of thing. This is serious, Congressman, to the panel and other interested folk.

You know, farmers are receiving less for their crops than it costs for production. This is across the board. It costs a farmer 90 cents to raise corn out of his pocket.

Interest rates are high, land values are declining. We have seen all that happen for the small land holding that black folk have. It has increased, and now it is declining. That has automatically put them in a deficit position. That goes across the board. The problems are the same, and something must and has to be done about it.

Just a little bit about what the federation is doing and the kind of method we take. We are concentrated in Alabama, Mississippi, South Carolina, working with a lot of small farmers. We are working, organizing, and working with community-based organizations developing cooperatives that would offer alternative marketing for small farmers. We are working to provide on-hands, in-the-field training and technical support. We are working to develop other community-based cooperative enterprises.

One, for instance, we are working on now is a cucumber plant in Alabama that will provide alternative markets for cucumbers, in turn will provide jobs and some type of—it will be a cooperative enterprise owned by the farmers and will provide jobs, will provide a method of marketing and income. We need more of that type of innovative thinking on a local level.

What this does and will do, it will offer income to the community, it would offer more taxes. It would offer a market for small farmers. That is a reality to do those types of enterprises for small farmers and say that they own it. We, black farmers and poor folk alike, want to own something. That is why it is important we deal with the land issue. It is a matter of farming—it is a matter of farming and that kind of thing.

I am sure you have heard of people, they move away, they give up, because once you take that away, you are taking away all pride, dignity, and everything else. I have read of suicides and other things in different papers when a farmer loses it all, you have lost one of the proudest individuals and the world has lost everything.

The day before yesterday in one community—and I wish the commissioners from Burke County were here, I am working closely with them, building a processing plant which would provide markets for producers, where producers can sell for themselves through the cooperative, they can process the meat and sell it back to the community at discount below-market rates to help the community.

There are innovative type things that can be done. I think we need to look at that very seriously and look at cooperatives as a means of doing that. Moreover, the Federation and Emergency Land Fund has merged, and some of the things we have talked about here, to strengthen the capabilities to provide land-assisted technology and technical assistance to small farmers.

We are merged into one organization now known as the Federation of Southern Cooperatives Land Assistance Fund. Under that fund we are proposing to develop a fund that will speak to some of the problems. Under that, we are developing programs in South Carolina and working with the farmers on an individual basis, training, working with problems that they have with property.

You have heard a lot of that. I won't go into those individual things. Those are the kinds of innovative approaches, but those things cost money, they need to be funded. They need to be funded with tax dollars that would have a greater return on the dollar.

In South Carolina, we are working with a group down in Ravanal where we are trying to save a vegetable production plant that will serve as a—we are raising money now to save it, and it will provide markets right there on the site. A farmer will not have to have trucks and a lot of equipment. They can bring it to the community, pack it together, and we can go to a large chain operation or market and say, "This farmer cannot grow on 50 acres, but there are five of them collectively cooperating, can grow tomatoes and compete in the marketplace, will you buy from them?" Those are the kinds of efforts we are working with.

You heard Mrs. Johnson this morning talk about our efforts with the State legislature. We are working as an advocate very seriously in all States that we are working in to take the ball to them for black and family farmers to say there are problems. We meet with the legislature, do lobbying on behalf of it, and in some cases I think we are making some impact in Alabama, Mississippi, and other places with that. I don't want to go on and on about that, but there are some specific things that I will—I will mention a few of them, you have the others, we would like to see as a group.

Mind you, these specifics come from group meetings, conferences, one at which the Secretary of Agriculture sent some of his staff down to listen, so they have heard some of these things. They do not come from me as executive director or any of our staff. This is what we put together from the farmers, their wishes. We have had meetings and conferences in Alabama, Mississippi, Florida, and other places that we work with to determine these things.

One of the things not on here that we are very interested in, as Mr. Crump has said, is young farmers. You have heard—young black farmers entering farming. I know last week we had a financial seminar over in Macon, GA, with the Georgia Development Financial Authority New Loan Program there, and we had young farmers there say, "How can we get into agriculture?" You had folk there saying—that has been trained in agriculture—saying "We need a loan, how do we do it?" There are some folks who want to help young folk get into agriculture.

We need some kind of commitment from FmHA to make commitments to these farmers who want to be part of this and stay in these communities and be farmers. Then we can work on alternative markets that will make it possible and productive for them to do such a thing.

To mention a few of our—a few of these issues we would like to see from FmHA. First, mandatory, producer-approved supply management programs, for all major crops similar to the program now in effect for peanuts and tobacco. This means we strongly support the Harkin-Alexander Farm Policy Reform Act of 1985 (S. 1083/H.R. 2383) and the farmer referendums called for in this legislation, as well as the provisions of this bill which would increase food stamp allotments for low-income people faced with rising food costs.

We should target credit—FmHA—technical assistance, and other support programs toward "those who need help the most"—limited resource, minority, and family farmers. You have heard that this morning. That needs to be targeted. It is just not enough, you know, even the young lady from Minnesota there, I mean that is a good program, but if you could target more resources like that, if you could target more resources at Fort Valley and not think of the kind of advocacy and direct assistance with alternative type agriculture systems that we are putting in at the federation in terms of cooperative development, which I think we could make an impact.

But to say $100,000 to help 39 farmers, that is tokenism, and I would never get up and apologize because we got that—you know, it is a good program, it is a good idea, but put some money into the FmHA, USDA. Put some money in it. We need it.

Concentrate research, education, and outreach efforts by land grant colleges, extension services, and comunity-based groups on small, family, minority diversified farming operations that need help the most, including the utilization of organizations like the Federation of Southern Cooperatives, and, of course, organizations like represented at this table now that deal with the grass roots of the problem that can get out after 5. Our organizations are not regulated by the Hatch Act or anything else that says we can't help a farmer on Saturday, on Sunday, after 5. That is when you have to do your work, and we do that.

Immediately implement the 1982 Civil Rights recommendations. We know what they are. We have talked about it. That needs to be done. If you just did that and put some teeth into it, that would solve a lot of the problems.

Now, for farm credit and lending policies, I will just go through a couple of these. Restore the minimum requirement that 25 percent of all FmHA farm ownership and farm operating loans be targeted to limit resource farmers, especially minority farmers. The FmHA Limited-Resource Loan Program was designated and mandated by Congress to serve small farmers, and we have heard that in 1982, $120 million of the allotted farms for this program went unsubmitted. We have heard that already, you know. I mean, it is there, let's implement it. Let's talk to FmHA and say, "Look, we will help you implement it. If you can't find it, we will find it." Our staff works after 5 o'clock, we know where they are. But we would like to see that implemented.

Reduce discrimination and arbitrary delays in FmHA loan procedures by setting a time limit on loan processing. We recommend a 30-day limit on loan processing from the date an application is completed. We also suggest a 5-day time limit on loan disbursement after approval. We are familiar with the many local offices in the South where white farmers have received loans and started planting their crops while loans for black farmers are still being processed. We have heard that today. Those are real things. I have known farmers who have come to me and said, "Look, I can't plant," or "I have planted, I didn't put down enough fertilizer, I can't pay my debt, my yield is not going to be up." These are some real problems.

And not only that, the bad part about it, this is what is happening now—the black farmer has already had these problems, now everybody else has them because of workloads and other things, you know, money or whatever they may be. These guys are lost because they have had these problems 10 years ago, 15 years ago. This is not—these things are not true, and nothing is done about it.

Reform the FmHA appeals process to make it more equitable. In North Carolina in 1983, I mean 98 appeals were heard and were held. In no cases were the citizens of the local FmHA office supervised, and only in 15 percent of the cases was the decision modified. You have heard that today. Nationally only 3.6 percent of FmHA administrative appeals have resulted into changes of a negative decision.

Now compare this with the Social Security Administration changes, which has a revision clause where over 50 percent of the appeals are overturned or modified. Compare that with using an administrative judge, nonpartial administrative judge to hear these cases. These are the kinds of things we want in those policies and the type of change for the credit policy for FmHA, and we are asking for.

Eliminate FmHA supervised bank accounts. Supervised bank accounts are cumbersome, waste time and are generally used to harass borrowers. We feel if a person is trustworthy enough to borrow money and he has put together the package and all, that he should be able to spend it. Not that he will blow it, we think he can do it. Somebody talked about the feed for the cow on time and all that kind of thing. If he goes down and can't get the check written, can't operate, can't buy groceries to put on the table, I mean he needs that money to operate. These are real, real things.

And, finally, again fund, adequately fund the extension program, such as you have heard about today, and programs like the one we are working with here.

OK. We support reform that will close tax shelters by lowering tax rates. To compete in the tax shelter, agriculture farmers must competitively exploit the Tax Code. This puts moderate income and moderate sized family farmers at a competitive disadvantage with large-scale operators in the high-tax bracket. The Tax Code is moving agriculture toward a system of much bigger and fewer farmers. I mean that is something that really needs to be considered.

We also need to amend President Reagan's proposal to place agricultural structures in the 18-year structure depreciation category. This misclassification of these buildings as 5-year equipment in current laws has resulted in overproduction of dairy products, low prices received by farmers. We are simply saying let the family farmers have the type of tax breaks that they need.

For instance, if a farmer is producing, you know, hogs, give him the tax break. If you put it on a 5-year basis, large corporate investors, chances are, will come in, overproduce, crowd the market and squeeze them out and cause the prices to drop. We think that will balance the prices.

Tax incentives to cultivate wetlands and erosive rangeland should be eliminated to protect the environment, reduce overproduction, and maintain the Nation's capacity to feed itself.

Mr. Towns. Mr. Paige, you can submit the entire statement for the record. I have some questions.

[The prepared statement of Mr. Paige follows:]

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Statement on Changes in Agricultural Legislation and Policy to Benefit Black Family Farmers and Landowners

By: Ralph Paige
Executive Director
Federation of Southern Cooperatives and
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There is currently a "crisis" in rural America for family farmers. Between a quarter and a half of all of America's remaining two million farmers are experiencing serious financial and debt problems. For many these difficulties will mean the end of a life and a livelihood in farming unless the government acts to change the laws, policies and situation affecting family farmers.

For Black family farmers in the rural South, we have been in a "continuous crisis" for the past 50 years. Black farmers have faced not only the general decline in the farm economy but also neglect, racial discrimination and economic exploitation. Black farm ownership and farm population has declined steadily and at a more rapid rate than for white farmers for most of this century. In 1910 there were over a million black farmers owning 15 million acres while in 1980 there were less than 100,000 black farmers owning less than 7 million acres.

Black farmers are still loosing land at an astounding rate of 1,000 acres per day or 350,000 acres per year.

The U.S. Civil Rights Commission in a report entitled "The Decline of Black Farming in America" published in 1982 found there were only 57,000 black commercial farmers (sales above $2,500) owning 4.7 million acres left in America. The report warns that unless the policies of the U.S. Department of Agriculture are changed "then there will be no more black farmers by the year 2,000.

Black farm families are among the working poor and should receive more attention and assistance. 46% of black farm families in 1976 were below the poverty level compared to 15% for all farm families. Black farmers are three times more likely to be poor.

Much of the rural land owned by black people in the Southeast is underutilized, producing below its potential or lying idle. This is due to the lack of capital, credit, markets and technical assistance available to small black farmers. These deficiencies in turn have their roots in historical problems and patterns of racism, discrimination and economic exploitation against blacks, rural people and small farmers.

Government policies and programs in agriculture, for the past half century, have been enacted in the name of "family farmers" but have been utilized to strengthen and enrich the largest farmers and the corporate sector in agriculture. Under the PIK program 10% of the largest farmers received a disproportionate 75% of the benefits. Less than 5% of all Land Grant College and Extension Service research has been specifically focused on the needs and problems of limited resource farmers. Tax laws give disproportionate benefits of farming to absentee owners and corporations in unfair competition with family farmers.

There is a "crisis" in our agricultural economy today which is acknowledged by most economists, experts and farmers. Farmers are receiving less for their crops than the cost of production. Interest rates are high. Land values are declining. The high value of the U.S. dollar depresses agricultural export sales at a time of increasing international competition. U.S. Agricultural policies are not targeted on helping the most needy and deserving farmers but are gearing to giving unnecessary subsidization to the largest and most successful farmers.

The crisis in agriculture which is now being felt by moderate income white family-sized farmers in the mid-West is reaching catastrophic proportions for small black farmers in the Southeast. Black small farmers in the South have been experiencing problems of foreclosures, partition sales, lack of credit, insensitive and discriminatory technical and marketing practices, all of their lives. The generally depressed state of the agricultural economy has accentuated and intensified the problems and on-going crisis of black farm people.

The Federation of Southern Cooperatives/Land Assistance Fund works with over 15,000 black family farmers, whose average land holding is 50 acres or less. These farmers are organized into various self-help cooperative and community based associations to collectively pursue purchasing, marketing, and technical services. The Federation provides the central information, training, resource and technical back-up support for this network of cooperatives, credit union, land associations and other groups. The Federation also serves as an advocate for black farmers with Federal and state agencies, Land Grant Colleges, corporations and others.

During the past year, the Federation/LAF has sponsored and held numerous conferences and forums to seek the views of our member family farmers on agricultural policies and the 1985 Farm Bill. From these discussions, we have distilled the basic views of our constituents.

The 15,000 black family farmers affiliated with the Federation favor changes in Federal agricultural policies, which include:

A. mandatory, producer approved supply management programs, for all major crops similar to the program now in effect for peanuts and tobacco; this means we strongly support the Harkin-Alexander Farm Policy Reform Act of 1985 (S#1083 HR#2383) and the farmer referendums called for in this legislation, as well as the provisions of this bill which would increase food stamp allotments for low income people faced with rising food costs.

B. targeting credit (FmHA) technical assistance and other support programs toward "those who need help the most"-limited resource, minority and family farmers.

C. concentrate research, education and outreach efforts by Land Grant Colleges, Extension Services, and community based groups on small/family/minority diversified farming operations, that need help the most; including the utilization of organizations like the Federation of Southern Cooperatives/Land Assistance Fund to provide outreach and technical services to small farmers.

D. immediate implementation of the 1982 U.S. Civil Right Commission Report recommendations to improve services to Black farmers; and to increase civil rights compliance and enforcement by USDA.

E. support research and implementation of technologically appropriate sustainable agricultural methods and practices that protect the soil and rural environment as a whole.

In addition to the general legislative and policy principles indicated above, we also favor other more specific recommendations on credit policies by Farmers Home Administration, tax policy, cooperative development and training programs and other areas.

On farm credit and FmHA lending policies:

1. Restore the minimum requirement that 25% of all FmHA Farm Ownership and Farm Operating Loans be targeted to limited resource and especially minority farmers. The FmHA limited resource loan program was designed and mandated by

Congress to serve small, poor and minority farmers. In 1982, $120 million of allocated loan funds for the program went unspent.

2. Reduce discrimination and arbitrary delays in FmHA loan procedures by setting time limits on loan processing. We recommend a 30 day time limit on loan processing from the date an application is completed. We also suggest a 5 day time limit on loan disbursement after approval. We are familiar with many local offices in the South where white farmers have received loans and have started planting their crops while loans for black farmers are still being processed. We are aware of other cases where loan processing was so lengthy that funds were approved after the last feasible planting date for some crops.

3. Reform the FmHA appeals process to make it more equitable. In North Carolina in 1983, 98 appeal hearings were held and in no case was the decision of the local FmHA County Supervisor overturned and in only 15% of the cases was the decision modified. Nationally only 3.6% of FmHA administrative appeals have resulted in a change of the negative decision. This compares unfavorable with a 50% change rate in Social Security Administration hearings where impartial Administrative Law Judges are utilized to review agency decisions. FmHA needs a similar system where an objective and neutral person reviews the case not a person from the agency itself, who has already participated in rendering the decision.

4. Eliminate FmHA supervised bank accounts. Supervised bank accounts are cumbersome, waste time and are generally used to harass borrowers. If a person is trustworthy enough to borrow in the first place, he or she ought to be trusted to spend their own loan money wisely.

5. Fund a program to provide more extension services through the 1890 Land Grant Colleges and farmer controlled organizations, like the Federation of Southern Cooperatives/LAF to provide technical services and research capability to small and minority family sized farmers.

On tax changes, as they affect family farmers and tax reform:

1. We support reforms which would close tax shelters while lowering tax rates. To compete in tax shelter agriculture, farmers must competitively exploit the tax code. This puts moderate income and moderate sized family farmers at a competitive disadvantage with large scale operations and high bracket investors. The tax code is moving agriculture toward a system of much bigger and fewer farms.

2. Amend the Reagan proposal to place single purpose agricultural structures in the 18 year structure depreciation category. The misclassification of these buildings as five year equipment in current law has resulted in over production of meat and dairy products, low prices received by farmers and lower payments to contract broiler producers. These sectors have become targets for tax shelter investments by corporations and investors, putting moderate sized producers at an unfair competitive disadvantage.

3. Tax incentives to cultivate wetlands and erosive rangeland should be eliminated to protect the environment, reduce over production and maintain the nation's capacity to feed itself.

4. Limits may be placed on deduction of farm losses from non farm income to prevent high income investors from farming the tax code. Such limitations would be structured to allow full deduction of farm losses from non farm income of up to $25,000.

On cooperative development and training for small and minority farmers:

1. Provide direct support to the Federation of Southern Cooperatives/Land Assistance Fund program of training and technical assistance to black family farmers in organizing and sustaining cooperatives and credit unions. This program is needed for sensitive and supportive assistance to small black farmers.

2. Provide direct support for the Federation/LAF program of land retention and education for small farmers.

We stand at a Crossroads in American agriculture, we can take the road to larger and larger farms concentrating ownership of land and the production of food into the hands of fewer and fewer people or we can take another road to promote equity and justice in a broad based agricultural economy involving many family farm producers. The time and opportunity for choices is rapidly running out.

Mr. ENGLISH. Thank you very much, Mr. Paige. I think you have provided us with a very fine statement, and I would like to make a comment more than, I think, than ask questions. I notice you were pointing to the limited resource program. You did point out there are funds that were not being spent, were not used in this program, and I noticed a good deal of your concern and criticism was aimed toward the manner in which the program was administered, all of which I would wholeheartedly agree with.

I don't think there is any question, though, as to what Congress intended when it passed these programs. They intended for them tc be used and utilized and to be helping people with their activities. But I have got to say they have not met with the same degree of enthusiasm over in the executive branch and in the Department of Agriculture for which Congress passed them, and I would dare say a good deal of your criticism is probably aimed toward the Department of Agriculture and the manner that USDA has administered those programs.

Unfortunately, there is not a whole lot we can do about that over here. We can pass programs, we can provide for that program, but if we have folks over there that simply don't want to administer it, or they don't want to administer it right or don't want it to work right, they can find all kinds of reasons as to why it shouldn't be done. And we have seen that time and time again.

The Farmers Home Program, particularly the direct lending program, is not one in favor with this administration nor with this Department, and I would say that I think that probably many of the difficulties you are running into reflect that simple factor. There is a lot of foot dragging, a lot of people who are not approaching this with a great deal of enthusiasm.

I appreciate your testimony, I think you did a fine job, and you other gentlemen did as well. Mr. Towns.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin by saying to you, Mr. Crump, I received a call from Congressman Spratt, who indicated he wanted to be with us this morning, but he was going back to South Carolina to meet with the Farmers Home Administration, and I told him he was excused because he was going to meet with the Farmers Home Administration. But I also asked him to point out to them some of the problems we have encountered in dealing with the Farmers Home Administration. I wanted to convey that to you; he asked me particularly to say to you that that is the reason he is not here

Also, I would like to thank all of you for your testimony. I think you really pointed out the areas that we must work on. I would like to take this opportunity to thank you for the kind of effort that you put forth on behalf of the farmers out there in making the situation known throughout the Southeast. I know you put a lot of time in, and to come here today to testify after the hurricane, after your car broke down and to still push to get here, I think, is just remarkable.

I want to assure you that I will continue to work very closely with you in seeing what we can do to move the Farmers Home Administration to do the kinds of things they are supposed to do on behalf of small farmers and black farmers in particular. Thank you for supporting our five amendments, and we will do everything we possibly can to get them in there. I am certain that with your help and your support, you might be able to pull some folks over on that now who for some reason or another don't fully understand what we are trying to do or maybe don't agree with us. Maybe you will be able to convince them to come aboard.

I think they are very good amendments, I think they are timely amendments, and I think that if we do that, we will be able to save a lot of small farmers. Thank you very much, Mr. Chairman.

Mr. **Crump**. I would like to alert you to one thing, sir. If we could get Farmers Home to enforce the laws, it would help all farmers, white and black.

One other thing I left out of my testimony is that Farmers Home was proposing in 1978, and in 1988 they are going to eliminate the direct loan program to buy and purchase farms. So what we would like to do is have those—not have them to eliminate that direct loan. Because they want to go to indirect loans. It is difficult for us to get loans now through what we call Government control or Government—it would be extremely difficult if they make these farm ownership guaranteed loans through private lenders and banks. That is supposed to be eliminated in 1988.

Mr. **English**. Thank you very much. I think that is a good point to make. I would like to once again thank all of our witnesses.

Mr. Ammonds.

Mr. **Ammonds**. What I would like to know before we leave today, are we trying to get some of these laws executed before 1988, before the next election? Are we going to start working on them today? Sometimes you talk about rhetoric and stuff involved in the whole situation. How are we going to best attack it and get it in force? We got a recession and everything in place. Is it going to be another 20 years or another 12 months to try to move along with the citizens of this country's business in order to try to—you know, rather than to continue to get into somebody's business, are we going to get our homework done here before we continue getting into other areas?

Mr. ENGLISH. We are probably going to find out this week on the floor of the House of Representatives when we take this farm bill up. That is when we will do our best to bring about improvements, and we hope we will get a degree of cooperation from folks down at the other end of Pennsylvania Avenue, particularly that fellow in the big White House. You get a little cooperation from him, you would be surprised how many of those improvements we can bring about. Hopefully that will be forthcoming.

We appreciate your testimony. It has been very enlightening, and hopefully it will be very productive.

We will recess subject to the call of the chair.

[Whereupon, at 1:55 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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DOES FARM FINANCING FACE FUNDAMENTAL CHANGE OR CURRENT CREDIT CRISIS?

(Part 1)

FRIDAY, NOVEMBER 15, 1985

House of Representatives,
Government Information, Justice,
and Agriculture, Subcommittee
of the Committee on Government Operations,
Washington, DC.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Glenn English (chairman of the subcommittee) presiding.

Present: Representatives Glenn English and John M. Spratt, Jr.

Also present: Representative Larry E. Craig.

Staff present: William T. Cherry, professional staff member; Euphon Metzger, clerk; and John J. Parisi, minority professional staff, Committee on Government Operations.

OPERATIONS OF THE FARM CREDIT GOVERNOR

Mr. English. The hearing will come to order.

This is the subcommittee's third hearing looking into changes which have occurred in agricultural finance and the response of agencies under our jurisdiction to those changes.

Today's subject is how the Governor of the Farm Credit Administration has exercised his supervisory and regulatory authority over the Farm Credit System.

Governor Wilkinson has held his office during much of the period which is often called the days of go-go banking. I believe it is safe to say that go-go banking has changed to gone-gone banking.

When the Governor took office in 1977, it was common in finance circles for lenders to woo borrowers, especially in the field of agriculture. It was common for lenders to urge borrowers to expand operations, to buy more land, to get bigger machinery, to plant more acres, to feed more cattle.

It was not unheard of for a lender to promise more than one borrower that he would get financing if he bid on a piece of property. Those who were promised would end up bidding against each other and artificially raising the price of the land.

It was not unheard of for a lender to advise a borrower to change cropping patterns or to go into or out of livestock, and the advice would be coupled with as big a loan as might be needed.

When I say lenders, I am not referring solely to Farm Credit System lenders, although they were right in the middle of the rush.

But times have changed. Now lenders are saying "no, no" at best, and at worst are saying "gone, gone" as they foreclose on those they wined and dined a few short years ago.

The Farm Credit System is plagued with bad loans, liquidated associations, voluntary and forced mergers, movement of capital, and in the past few weeks, pleas to Congress for Federal assistance of $5 billion by the Governor and $6 billion by the system.

The Governor is also asking Congress to change his regulatory authority to more nearly parallel that of the Comptroller of the Currency. He is also asking that some of his supervisory authority be abolished.

For the benefit of those who are not familiar with the terminology, the Farm Credit Administration and the Governor supervise and regulate the Farm Credit System. The administration is a Federal agency. The Farm Credit System are the 12 Federal Land Banks and their associations, the 12 intermediate credit banks and their Production Credit Associations, and the 13 Banks for Cooperatives. The Farm Credit System is cooperatively owned by its users, and its ownership is private.

Today we will be looking at how Governor Wilkinson has used the authority of his office during both the go-go times of the past and the gone-gone times of today.

With that, I would like to yield to Congressman Craig for any statement that he might have.

Mr. CRAIG. Thank you, Mr. Chairman.

Let me first ask unanimous consent that we allow my colleague Jim Lightfoot's statement to be entered into the record.

Mr. ENGLISH. If the gentleman would yield at that point, I would also ask unanimous consent that the statement of Representative Richard Stallings be entered in the record as well.

[The prepared statements of Mr. Lightfoot and Mr. Stallings follow:]

STATEMENT FOR THE RECORD BY CONGRESSMAN JIM LIGHTFOOT

GOVERNMENT OPERATIONS SUBCOMMITTEE ON GOVERNMENT INFORMATION
JUSTICE, AND AGRICULTURE HEARING ON FARM CREDIT

NOVEMBER 15, 1985

I would like to extend my thanks to Chairman English for continuing this series of hearings on farm credit, and for inviting Governor Wilkinson of the Farm Credit Administration to appear before our Subcommittee to answer questions on policies and recent actions taken by the Farm Credit System.

Providing approximately 32% of all farm credit in rural America, the Farm Credit System's activities have profound effects on agriculture in general and specifically on the livelihood of every farm family.

Although the federally-chartered Farm Credit System acts as an independent agency, the System has now come to Congress seeking government financial assistance. Speaking purely from the standpoint of Congress' role in representing the taxpayer, it is the right and, in fact, the responsibility of those of us in Congress to secure answers to questions of accountability of officials of the Farm Credit System and Farm Credit Administration prior to approving a package of financial assistance for the System.

There is no doubt, as highlighted by the recent Chase Econometrics study, that the federal government has a role in maintaining the viability of a system which provides the services provided by the Farm Credit System. This does not mean that

Congress should guarantee the investments of bond holders, carte blanche, but rather our allegiance lies in assuring that the 32% of agricultural lending represented by the Farm Credit System is maintained for the purposes of providing reasonable credit for agricultural producers.

My position with respect to financial rescue packages will be based almost entirely on the protection such a package will assure for the farm borrower/stockholder. I cannot and will not support such a package without guarantees that my farm borrowers are sufficiently protected. This guarantee I do not have with the current Farm Credit System proposal.

A number of legislative proposals have been introduced in Congress to date to provide alternatives to the Farm Credit System's package, several of which I have cosponsored such as H.R. 3274 by Congressman Leach and H.R. 2609 by Congressman Evans, as well as S. 1790 introduced by Senator Baucus.

These packages jointly provide many of the assurances I believe are necessary to protect farm borrowers. For example, if the taxpayer is to provide financial aid, fiscal responsibility mandates periodic audits and reports to Congress on the condition of the System. As well, the creation of a regulatory agency, such as the FDIC which serves the commercial lending industry, is imperative. There simply must be an entity to provide for receivorship and repurchase of failed institutions, such as that which oversees commercial banks.

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If borrowers from commercial institutions receive certain protections why shouldn't borrowers of the Farm Credit System receive the same assurances, particularly if taxpayer financing is involved.

Also critical if the taxpayers are to share in this financial burden is the publication of System policies and rights of borrowers and stockholders, as well as improved accountability and liability for improper actions taken by Farm Credit System officials and employees, as would be required by H.R. 2609. Recent accounts of improprieties and such reports as raises being approved for officials in the Omaha District have certainly not helped support the Farm Credit System's request for assistance.

Furthermore, I am pleased to know that the American Bankers Association is in the process of preparing a proposal which would address the financial needs of not only the Farm Credit System but commercial lenders as well, which account for about 24% of all agricultural lending.

This factor is important, as it would be short-sighted, in my opinion, to provide assistance to 32% of the sector while ignoring another 24% of the agricultural lending sector -- they have all been impacted by the economic downturn in agriculture over the last few years. I am currently considering a proposal to provide for interest buy-downs useable by all lenders which would be broader in its application and directly serve more borrowers.

Another point which greatly disturbs me is the apparent unwillingness of the Farm Credit System to provide for debt restructure, a fixed rate of interest, or lease-back conditions for borrowers. The lack of forebearance practiced by Farm Credit System officials in this time of extreme difficulty for farmers is inexcusable.

I have a few questions which I would like to put to Governor Wilkinson in writing, and I request that he submit his written responses. Once again, let me thank my Chairman, Congressman English, for his efforts to address the serious problems we face with respect to farm credit, and I wish to assure him of my continued support in this endeavor.

[Mr. Lightfoot's written questions, with replies, follow Mr. Wilkinson's testimony.]

STATEMENT PRESENTED BY REPRESENTATIVE RICHARD H. STALLINGS BEFORE THE HOUSE SUBCOMMITTEE ON GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE, NOVEMBER 15, 1985.

Mr. Chairman, I want to take this opportunity to thank you and members of the subcommittee for holding this timely hearing regarding the status of agricultural financing in the United States and the operations of the Farm Credit Administration.

The Second District of Idaho, which I represent, is a rural district. I am watching the demise of communities because of what is happening to my farmers and their farms. Any action we can take to correct this situation is to be commended.

I would like to present information regarding the situation in the Spokane District (also known as the 12th District) of the Farm Credit System. When the 12th District presented the merger plan, 61 of the total 63 Production Credit Associations (PCA's) and Federal Land Bank Associations voted to go along with the plan, subject to their stockholders approval. The Eastern Idaho PCA (EIPCA) and Montana Livestock PCA did not approve the consolidation plan. Montana Livestock PCA has since determined to separate from the system and EIPCA elected to become a separate association within the system.

EIPCA has pledged to cooperate with the 12th District Farm Credit Banks in implementing "one-stop" credit throughout its chartered territory, in an effort to assist the District Banks to achieve their reorganization goals. However, in the development of the merger, the plan was designed to include the newly consolidated Interstate PCA and EIPCA into overlapping districts. This means that the new association and EIPCA will be in direct competition with each other to service the short-term lending needs of the same area.

Direct competition between associations through multi-branch facilities operating throughout the same geographical territory can serve no purpose other than to further erode the capital base of the competing associations and the 12th District. The District Farm Credit Banks should assist voluntary efforts of the 21 PCA's to merge territory adjacent to but not overlapping the chartered territory of EIPCA. The objective of the District Banks should then be to supervise both associations fairly and impartially and otherwise assist efforts of the associations to serve the interests of borrowers in their respective territories and thereby serve the best interests of the 12th District and the entire system.

In light of the financial stress in the Farm Credit system, I believe it is imperative to finalize the merger by consolidating all resources and resolving this situation to the benefit of all the Districts borrowers and stockholders.

Mr. CRAIG. Very good. Thank you.

Mr. Chairman, I appreciate the opportunity to participate in this hearing and the opportunity to ask the Governor of the Farm Credit System questions as to the nature and the extent of the financial difficulties of the Farm Credit System and whether the particular actions that have been and are being taken by the system are necessary for the preservation of that system.

One of those questions is whether the Farm Credit System needs an infusion of capital; and, more important, I believe, is an examination of what measures need to be taken to stop the hemorrhage of funds from the system. Consolidation of Production Credit Associations and Federal Land Bank Associations in each of the 12 districts has taken on the appearance of being the system's major solution to its problems. Consolidation and the manner of its implementation in several of the districts has become the most controversial measure proposed to deal with the system's financial difficulties.

I am not opposed to consolidation per se. Historically management at all levels has created problems such as the building of fancy office buildings and, as my chairman has mentioned, the go-go lending practices of the late 1970's. But I am not sure that consolidation necessarily leads to improvements in management.

One thing I am certain of is that there is a subtle element of coercion in the consideration of consolidation proposals. Associations which do not vote in favor of consolidation are learning that their vote may not matter in the long run because the new districtwide associations will operate in direct competition with the dissenting association or associations.

With several districts facing votes on consolidation plans, it is imperative that the members of those associations know what the consequences will be if they vote in favor of or against these proposals. I hope that this hearing will help to answer some of those questions, and, Mr. Chairman, again I appreciate the opportunity you have afforded us to make these queries today.

Mr. ENGLISH. Thank you very much, Mr. Craig.

We have only one witness today, and I think that this will allow us to look in depth at the developments that have been taking place within the Farm Credit System. That witness is the Honorable Donald E. Wilkinson, who is the Governor of the Farm Credit Administration. Mr. Wilkinson, I want to welcome you here today. I will allow you to introduce the gentlemen who have accompanied you.

STATEMENT OF DONALD E. WILKINSON, GOVERNOR, FARM CREDIT ADMINISTRATION, ACCOMPANIED BY LARRY EDWARDS, DEPUTY GOVERNOR AND CHIEF EXAMINER, AND FRED MEDERO, GENERAL COUNSEL

Mr. WILKINSON. Thank you. I am Donald E. Wilkinson. We appreciate very much the opportunity of being able to visit with you and the committee today.

To my right is our Deputy Governor for Supervision, and he carries the title of Chief Examiner, Mr. Larry Edwards. Mr. Edwards has been with the agency longer than I have and has lived through this period you have made reference to. To my left is our General Counsel, Mr. Fred Medero, who has joined the agency since I have served as its Governor. We look forward, Mr. English, Mr. Craig, to being as frank and direct as we possibly can in helping all of us understand this situation.

Mr. ENGLISH. Very good. Do you have a statement you would care to make?

Mr. WILKINSON. Mr. Chairman, I do have a statement. I would prefer, if it may be entered in the record, that we do that. I would have only a couple of introductory statements, so that we can get to the direct areas of interest.

Mr. ENGLISH. So, without objection, your full and complete written testimony will be made part of the record. So please feel free to summarize.

Mr. WILKINSON. I think this committee is aware of the fact that the Farm Credit Administration is very concerned about the serious agricultural economic situation that we find ourselves in in the United States and, in turn, the Farm Credit situation as well.

As a result, last week the Farm Credit Administration, under my direction, provided to both Houses, the Agricultural Committee of the House and the Agriculture Committee of the Senate, our proposal for new legislation, which includes three parts.

No. 1, new authorities to the regulatory agency, in other words, the Farm Credit Administration.

No. 2, authority through that agency, working with the system, to consolidate its resources so that it may use as much of those resources as possible before having to call on taxpayer assistance.

And, No. 3, then a backup line of credit to be negotiated with the Treasury at a time when the need so evidences.

I think it is important that we are not here today asking for a major bailout of one part of the agricultural structure, agricultural credit structure. I would say, however, that as the regulatory agency over this system, we are aware that within the system's portfolio at the present time, there is some $13 billion of nonperforming assets that we envision having to be handled, worked through, before yearend 1987.

It is difficult to estimate at this time, not knowing what the agricultural economy and the commodity prices will evidence, it is difficult to anticipate how much of that may be worked out or how much needs to be charged off. We estimate a minimum of $6 billion having to be charged off. Actually, $3 billion of that is identified as having to take place between now and yearend or early into 1986. In the next 2 years, we would anticipate an additional $1.5 to $2 billion.

This is the situation facing us, and it was for that reason that we came with our draft bill with an extremely austere request as far as we were concerned: only a line of credit to be used if and when necessary. In other words, the system has done all it possibly can.

I think, Mr. Chairman, I would like to stop there, because I hope that leads us into an array of questions that will be helpful for all of us to try to respond to.

[The prepared statement of Mr. Wilkinson follows:]

TESTIMONY OF

DONALD E. WILKINSON

GOVERNOR, FARM CREDIT ADMINISTRATION

NOVEMBER 15, 1985

Mr. Chairman, the Farm Credit System is facing a financial crisis of unprecedented magnitude. Last week, the Farm Credit Administration (FCA) submitted draft legislation to the House and Senate Agriculture Committees. We propose that three steps be taken. First, FCA must be made a truly arm's-length regulator with strong enforcement authorities. Second, Congress must mandate the System to pool both its resources and the management of its distressed assets. And, third, we have asked Congress to provide backstop Federal financial assistance in the form of a $5-billion line of credit to help preserve the essential elements of this farmer-owned, credit-delivery mechanism.

Today, we direct our attention to a number of specific matters of concern to this committee. I would like to briefly address each of the topics you indicated an interest in pursuing today.

First, regarding the disposition of acquired properties, FCA views this as the responsibility of the district boards of directors. FCA does not have approval authority over district policies in this area unless questions of safety and soundness or conflict of interest arise.

The use of land contracts not requiring purchasers to buy stock in Federal land bank associations (FLBAs) is consistent with the Farm Credit Act (Act) of 1971, as amended. The bank retains title and no mortgage is involved. The purchaser does not become a member of the association or have voting rights.

Prompt disposition of acquired properties is important to protect the financial interests of the member-borrowers, because the asset is nonincome producing until sold or leased. The practice of making "concessions" is consistent with practices of other financial institutions. Generally, if a borrower is still creditworthy, the lender will restructure the loan to the borrower, rather than foreclose. However, if the borrower is not creditworthy, the lender is forced to foreclose to protect the interest of its shareholders. The subsequent sale of the acquired property often requires "concessions" to the purchaser.

Second, regarding mergers, decisions and approval of such merger plans must occur at several levels. The district board, local association board, and voting membership are all involved in the process. The district bank and the FCA must approve all mergers and consolidations of associations, bylaw amendments, and changes to association territories. In addition, FCA must approve all charter amendments and, where appropriate, issue new association charters and cancel old ones.

There have been some questions regarding the actions of district boards and management in this process. Although the district board may have authority to reassign loans from one FLBA to another to maintain financial viability, FCA requires that adequate cause be shown for such action. FCA does not consider an association's negative vote on a merger plan to be adequate cause for the district to exercise this authority. Furthermore, FCA does not advocate the use of any punitive actions against associations that refuse to consolidate into a districtwide association.

FCA's regulatory role in the reorganization of Farm Credit System (System) institutions is to ultimately approve such restructuring plans through the issuance of new or amended charters. In determining whether to approve mergers and consolidations, the Governor must be satisfied that the reorganized institutions are economically viable. In addition, FCA has received a congressional mandate to encourage mergers where service to borrowers and financial stability of the resulting association will be enhanced. (See sec. 5.18 (2) of the Act.) FCA, through regulations and review, ensures that adequate financial and other material is made available to stockholders who must vote on such mergers.

Third, with respect to complaints that borrowers were encouraged to borrow more than they needed, there is no question that lending practices in the late 1970s in some associations may have been overly liberal. But borrowers sought the funds and have an obligation to repay.

Another aspect of this concern is the charge that System lending practices led to excessive capitalization of agriculture during the 1970s, and the amount of dislocation being caused by the necessary adjustment of agricultural land values is the result of such overcapitalization. While it is true that the availability of credit was a contributing factor to the overvaluation of farm assets, it was not the major cause. The inflationary pressures in the economy occurred independently of the availability of credit to farmers. The System was simply carrying out its congressionally mandated responsibility of providing credit to creditworthy farmers, ranchers, producers and harvesters of aquatic products, and their cooperatives.

Fourth, with respect to complaints that the System institution should have distributed operating profits rather than retaining them, the distribution of earnings have been allocated according to legal requirements. Bank decisions have generally been to reduce interest rates to borrowers rather than to pay dividends.

The System's capital position has helped maintain a level of investor confidence that has kept interest rates on System securities close to rates on Treasury issues. The System borrowers directly benefit through reduced interest rates. Furthermore, the ability of the System to meet some of its anticipated losses is the result of building capital reserves.

Fifth, with respect to concerns stated by a number of State Attorneys General about the fairness of System treatment of borrowers, FCA takes the following position with respect to each issue raised:

Disclosure of Loan Terms

System institutions should be treated like all other lenders. Farm loans are exempted from truth-in-lending requirements because they are business loans rather than consumer loans. We agree that borrowers should be informed of the manner in which interest rates are calculated, and we believe this information is being provided in most cases. We oppose the specific recommendations of the attorneys general for changing the method for calculating interest rates or for the disclosure of a hypothetical annual percentage rate.

Access to Documents and Information

FCA supports the provision that copies of articles of incorporation and bylaws be furnished to association members on request. We also believe association members should be furnished policy guidelines controlling the operation of their institutions, copies of all loan documents that the borrower executes, and a clear statement of the reasons why they may have been denied credit. We do not believe that stockholders are entitled to copies of loan manuals designed for internal guidance of employees, to the entire contents of their loan file, or to access to documents the association may have prepared for its own use.

Fairness and Right of Review

Present law and regulation already require prompt written notice to applicants, if an application for credit is denied or reduced. Reconsideration by the lender is also provided. The attorneys general recommend that System associations be required to establish a board-review committee to hear appeals from borrowers who have been denied credit or who have received notice of an adverse credit decision. FCA does not favor increasing notice and review rights of borrowers within the institution. System institutions are borrower-owned businesses, not government agencies. FCA believes that adequate protection of debtors' rights are provided by the judicial process.

Appraisals

FCA sees no need to prescribe credit procedures on appraisal by statute.

Forbearance

We oppose the "entitlement" of System borrowers to forbearance without regard to the cost of such action to other borrowers or the institution itself. The lender must retain the option to liquidate the borrower's collateral.

Claims Against Stock

The present statute establishes a clear claim on the borrower's stock. Furthermore, in the event of a liquidation of an association, the borrower's stock is at risk. FCA has taken steps to ensure that stockholders are fully informed of their rights and obligations as System stockholders. We believe these actions are sufficient.

Liquidation of Institutions

While the System has attempted to ease borrower transition in cases of association liquidations, FCA does not believe it is prudent to require or imply an obligation to do so. In all cases of liquidation, the cost of assistance to shareholders in the liquidated institution must be passed through to other institutions or shareholders whose interests must also be respected and protected.

Regulation to preempt state laws regarding moratoria on foreclosures

FCA has temporarily withdrawn its regulation preempting state laws that place a moratorium on foreclosures. We believe, however, that the regulation is based on solid legal principles that the various states shall not establish laws to thwart Federal statutes. If FCA believes that moratoria statutes of Iowa or any other state threatens the safety of System institutions or the continued availability of credit to farmers, we will have no alternative but to act to fulfill our responsibility.

Sixth, with respect to providing a charter to an association that covers the same geographic area as another association, it is the Governor's responsibility on a case-by-case basis to determine whether such "chartering-over" will result in competition injurious to the existing association. There are a number of associations with overlapping districts that have been chartered by FCA. Generally such chartered-over associations serve livestock operators, while other associations serve crop producers. However, a strict separation of lending responsibilities is not required. In a court challenge to the chartering over of the districtwide production credit association (PCA) in the Spokane district of a remaining individual association, the Governor's determination to approve the charter has been upheld.

Finally, with respect to the salary of System employees, the salaries are ultimately set by farmer-elected boards of directors of the System institutions. FCA has the responsibility of approving a salary scale for employees of System institutions, except for associations. FCA also approves the compensation of the chief executive officer of such institutions. Salary schedules are approved after careful study of the commercial banking industry. Generally, Farm Credit bank salaries of the chief executive officers are tied to salaries of the second ranking officer of comparable commercial banks. Also, as a general rule, the salary range of the second ranking officer of a Farm Credit bank cannot exceed 80 percent of the chief executive's range.

In reviewing the salary levels of System officers, it is important to note that in 1980 there were 30 chief executive officers. There are now only 15. This is because 10 of the 12 Farm Credit districts now have a single chief executive for all 3 banks, and one has a single chief executive for 2 of its 3 banks. As a result, most of the chief executives now have significantly greater responsibilities.

Mr. ENGLISH. I think it will indeed, Mr. Wilkinson. First of all, I would like to understand very clearly the lines that differentiate between the Farm Credit Administration and the Farm Credit System. Now, as I understand it, you have the regulatory authority, the Farm Credit Administration, over the Farm Credit System, in some ways very similar to what the Comptroller of the Currency has over the banks throughout the country, is that correct?

Mr. WILKINSON. That is correct, Mr. English. It has, however, been badly misunderstood. Because there are, unfortunately, people across the Nation and perhaps some here in Congress that believe the Farm Credit System, the System itself, is a part of Government and is under the direct Home Office Administration of the Farm Credit Administration. That is not true. The Farm Credit System is a cooperatively owned, private structure having utilized no Government funds since it repaid its last capital in 1968.

The Farm Credit Administration has within the last several years been making a very real and true effort to separate itself, to have a true arm's-length relationship. It has, however, not had the authorities to be able to do that as effectively as it should have. It is far short of the same authorities that the Comptroller, the FDIC, the Fed, and others have had.

Mr. ENGLISH. I think the reason for the confusion is because of the similarity of the names, Farm Credit Administration versus Farm Credit System. I think that needs to be pointed out very clearly. There is a vast difference, one is the regulator, the other is regulated.

Who are you appointed by? How do you receive your position to your office as Governor?

Mr. WILKINSON. I have been appointed as Governor by the Federal Farm Credit Board, 12 of whom are appointed by the President for 6-year staggered terms. The 13th is appointed by the Secretary of Agriculture and serves at his or her pleasure. So once removed——

Mr. ENGLISH. Once removed, you are a Presidential employee?

Mr. WILKINSON. Once removed, yes.

Mr. ENGLISH. With regard to the authority, you are asking Congress to give you cease and desist authority. Can you remember any instances since you have been Governor when you have used that authority?

Mr. WILKINSON. Yes, sir. I remember several. I would say only one here. Because it goes back to the reference which you and Mr. Craig made, the go-go days. And it was not only true in some sectors of agriculture, it was true in other areas in which the Congress has not only authorized but urged that the Farm Credit System provide credit service to. And I am speaking now of so-called farmers of the sea, commercial fishermen. In the case of the Spokane district on the northwest coast, we began witnessing an expansion of credit going to commercial fishermen. Our examination reports have effectively evidenced that the loan officers were failing to utilize the same credit standards in making those loans as they even were in that very area in making agricultural loans.

In a proper way, this examination report, under Mr. Edward's office, was delivered to the board of directors, the district board of directors, which is that group we hold accountable, because it is a farmer-directed organization. It had already been discussed with the management of that bank.

Mr. Chairman, that report went on that board table, our people were there discussing it, we had no authority to cause them to cease that operation. We had and have no authority to remove any member of that board. We have no authority to remove any banking management, and it was only literally years later, many months later, that we were able to negotiate, coerce that Board of Directors to recognize the seriousness of their problems. That is one case.

Mr. ENGLISH. You are saying you do not have the authority to remove anyone from the bank management, is that correct?

Mr. WILKINSON. That is correct, sir.

Mr. ENGLISH. Is that true of any district board member?

Mr. WILKINSON. That is true, sir.

Mr. ENGLISH. And you say that you could not order that the practices be stopped, and you also mentioned that Spokane was not the only instance. How many other instances were there?

Mr. WILKINSON. There were other instances. I would cite the Louisville district, which has been one that has caused concern.

Mr. ENGLISH. What period of time?

Mr. WILKINSON. We are talking about 1978 to 1983 or 1984, where we were finding again in this case the go-go—I am trying to think of a synonym or other term I can use.

Mr. ENGLISH. I think that works as well as any.

Mr. WILKINSON. The go-go attitude on the part of that association.

Mr. **English**. Any other associations, any other instances than Louisville and Spokane?

Mr. **Wilkinson**. I am sure there were others across the country. This was not an isolated problem the Farm Credit Administration faced. I don't want to generalize by saying all districts had such a problem as those two.

Mr. **English**. In these particular cases we are talking about, are we talking about a particular bank, a district bank, or are we talking about a local association?

Mr. **Wilkinson**. We are talking about both. First we hold the bank account of the Federal Credit Bank, which is the bank that provides the funds, discounts to the Production Credit Associations. But we are, in turn, also speaking of the Production Credit Associations and their farmer-elected boards.

One of the basic problems, Mr. Chairman, is that in those years, and perhaps even still today these farmer-elected boards believe that they have the mandate to ask their management teams to function in the way that they believe their borrowers desire. And in those days, at least, it was more credit hopefully to those who they deemed to be creditworthy under the law.

Mr. **English**. You say that you couldn't order the practice to be stopped, and you say that you did not have the authority to remove any chief executive officer or any district board members. What else did you do otherwise? Did you go public through the press stating that in your opinion that the Farm Credit System was heading for trouble because of this attitude?

Mr. **Wilkinson**. There was quite a bit of press resulting from the Louisville situation.

Mr. **English**. Was this you? Did you go to the press and say, in 1978, 1979, 1980, 1981 or 1982, "These lending practices, in my opinion, are not wise and these associations and banks are heading for trouble"?

Mr. **Wilkinson**. No, we did not go to the press at that time, Mr. Chairman, primarily because we were still attempting to engender in those elected farmer boards the proper feeling of accountability.

Mr. **English**. Did you come to Congress and point out to the Members of Congress that this problem was brewing out there and that you didn't have the authority to deal with it, that you needed cease and desist authority, you needed authority to remove bank officers and board members? Did you speak to any Members of Congress about this problem?

Mr. **Wilkinson**. This was reviewed by some Members of Congress who were serving on the appropriate committees, the Agriculture Committees, at that time.

Mr. **English**. Would you identify the members you spoke to this about? I am a member of the Agriculture Committee, and I don't remember you speaking to me about it.

Mr. **Wilkinson**. No, I did not speak to you. Mr. Jones——

Mr. **English**. You told them this problem was brewing, and you needed this authority?

Mr. **Wilkinson**. But, Mr. Chairman, I will have to acknowledge to you I did not at that time come asking for additional authority. I still had hopes that this privately owned Farm Credit System would be able to do those things necessary, namely, elect different directors, namely, move and change its management people, without us as the regulator having to take those kinds of actions.

Second, Mr. Chairman, I will acknowledge to you that the Farm Credit Administration in those early days was not playing the arm's-length role of a regulator as much as it should have. It was attempting to do much of this work through advocacy, through supervision, in a way that would be acceptable to the farm community.

Mr. ENGLISH. Well, with that in mind, then, did you suggest that the Federal Board here, the Farm Credit Administration, your Board members, those people that hire you, did you suggest that they should sit down and talk to the district boards and tell about this problem and that we needed to deal with this difficulty? Was there any action along those lines?

Mr. WILKINSON. Yes, there was significant action there.

Mr. ENGLISH. Did those board members talk with each other?

Mr. WILKINSON. Yes. Not only urging our Federal Board to recognize the need for increased communication, but also urging our own staff, including myself, because I visited with everyone of those boards every year since I have been Governor, trying to engender again accountability.

But when you have boards who truly are good agriculturalists but they are beginning for the first time to face some adversity in the financial community, it is difficult for them to take the necessary steps to try to keep their association solvent.

They are more concerned, because they believe that this is their mandate, to do whatever is necessary to serve their individual borrowers, the members of their credit cooperative. Too often, they, and perhaps we, fail to emphasize to them that they have fiduciary responsibilities over a financial institution.

Mr. ENGLISH. Now, is this true—you are talking about the 12 district boards that make up the Farm Credit System, or are you talking about local associations?

Mr. WILKINSON. I am talking about both, sir.

Mr. ENGLISH. That is interesting. I am as you know, Mr. Wilkinson, very familiar with what has taken place in the Farm Credit System.

Mr. WILKINSON. Yes, sir.

Mr. ENGLISH. My father was president of Federal Land Bank Association for 35 years, and he is now serving on one of those local boards you are talking about, so I have a good working knowledge of what took place during those years, and it doesn't square with what you are saying.

It is far different than that. During those go-go years we found, particularly down in the Wichita District, that the situation that was developing was that the Wichita office was urging the local associations to go out and be much more aggressive in their lending practices. They were urging the local associations to approve loans that certainly they had never approved in the past.

As you well know up until about the 1970's the Federal Land Bank Associations, the PCA's, these are very conservative lending institutions, their appraisals were conservative. They lost customer after customer because those appraisals weren't good enough, weren't high enough or the percentage of the loans weren't high enough, they weren't loaning enough money.

The change that came about was after the loan of the Farm Credit System was paid off to the Federal Government in 1969 and this industry started coming about. I would strongly suggest to you, and I think you know very well, it was not a case of the local associations suddenly being unable to resist lending money. That is not the case at all.

The effort, the push, the real drive behind this go-go banking as far as the Farm Credit System is concerned, came out of Wichita and the other 11 districts. That is where those managers, those presidents of those local associations, who in some cases went against the better judgments of their local boards, got involved in this go-go banking to the point that they were spotlighted. They were focused.

They were the Golden Boys as they went out and made those loans, and I would dare say to you today those various associations are the ones with the larger numbers of foreclosures. That is where it is being focused on.

So, you know, I would like to know if you want to contest what I am saying with regard to their statements, Mr. Wilkinson.

Mr. WILKINSON. I happen to know your father and have appreciated his role in the Farm Credit System. I also know that he would not be in his—his association was not one of these we are talking about. But I would cite for you it was essentially the Farm Credit Act of 1971 that began establishing greater autonomy at the association level, giving greater freedom, more liberty, to do their thing.

Mr. ENGLISH. Let's put that down, Mr. Wilkinson, where it really belongs. We are not talking about associations, we are talking about the banks. We are talking about those 12 banks, that is where the authority went to. That is when we started seeing the authority ebb away from local associations and local boards, and drained up to the management of those banks.

That is where the real thrust came as far as this entire activity and entire effort, it came from the banks. That is where the spotlighting took place. It was at the banks. That is where the real push behind the whole drive for go-go banking in agriculture was. In the banks.

You are absolutely right when you say it was started in the early 1970's, it wasn't in the late 1980's. It even became worse. After the Federal loans were paid off, after the oversight, that is when they started drifting away.

Mr. WILKINSON. I would have to suggest, I think it happened at both places. I am not going to be defending the banks because that was true in many cases. But some of the associations, and I can cite a specific one, Mr. English, were very much involved in that and were actually opposed by the bank.

I speak of Mammoth Cave, KY, which was the largest production credit association in the Nation in the late 1960's, early 1970's. It had this go-go attitude; it is no longer in existence. It was liquidated several years ago, and it was not due to the bank alone. The bank may have tried to be more aggressive, but they had a very aggressive board of directors, and that association had a very aggressive chief executive officer.

There are others across the country, not nearly in that position, but that is one that is standing tall in my mind.

Mr. **English**. Then I would suggest to you that you also look at Enid, OK, which happens to be in my district. You know full well that the management of the Enid Association and the association itself was commended time after time in the late 1970's for their aggressive lending practices.

They were spotlighted nationwide, not just in Oklahoma and that area but nationwide for that very reason. Then when it came time, when the chickens started coming home to roost and agriculture came into difficulty, that is when they came on this board and said, "We want you to foreclose on these people," and that is what is happening today. That is one of the reasons it has the highest number of foreclosures in the State of Oklahoma.

That urging, that attention, that whole effort came out of the Wichita office. That is the reason that the Board was encouraged to pursue that. They weren't restrained. Let me get a couple real quick questions. If we can get these little housekeeping matters tidied up we will move in a more aggressive fashion.

How often do you examine the district banks?

Mr. **Wilkinson**. District banks are examined annually.

Mr. **English**. How often do you examine the associations?

Mr. **Wilkinson**. Production Credit Associations are examined annually. The Federal Loan Bank Associations 18 months. Every 18 months. This is required by the law.

Mr. **English**. When you examine a Federal Land Bank Association or one of the banks or PCA's, do you look at the quality of the loans and make any judgment as to their worth or do you just look at the books and see if the thing balances out?

Mr. **Wilkinson**. No, we look at all aspects of the operation of that association. That is different than a CPA, certified public accountant, type of financial audit. We are concerned about the operation of that organization, we are concerned about the credit administration of that organization. We are concerned about the financial.

We look at all parts of it. Mr. Edwards, any additions, please?

Mr. **Edwards**. We don't directly examine the quality of the loan assets in FLBA's. That is done by the district bank. We spot check their work in a number of associations each year.

Mr. **English**. Wait a minute now, Mr. Edwards. You are saying you do not make a judgment with regard to the quality of those loans?

Mr. **Edwards**. No, sir.

Mr. **English**. You leave that up to the local associations?

Mr. **Edwards**. That is right, performed by the district banks.

Mr. **English**. You have a situation out here as the regulator, trying to get some feel as to how the system is performing, what kind of shape the system is in, you have the responsibility from a Federal oversight standpoint, but you take the district's word for the worth of their loans.

You don't bother to make any kind of judgment so far as the local associations and the worth of their loans, is that correct?

Mr. **Edwards**. We spot check the examination work done by the bank on a selective basis, and they examine the credit in the association.

Mr. **English**. But you still don't make any judgment even on the spot checks as to the quality of the loans, do you? Is that what you said?

Mr. **Edwards**. Yes, we do.

Mr. **English**. You do spot check?

Mr. **Edwards**. The bank itself is adequately classifying the credit at the association level.

Mr. **English**. So you make a spot check of that but not the local associations.

Mr. **Edwards**. That is correct.

Mr. **English**. So you could have a bank out here which at least on paper from your spot check in looking at that bank might look all right but they might have a number of associations out there where their loan portfolio contains all kinds of bad loans, and you would never know it, would you?

Mr. **Edwards**. It is possible our sampling would not pick that up. But it is unlikely we would not be familiar with a particular organization.

Mr. **English**. When did it first appear to you we had a real problem nationwide with regard to this system?

Mr. **Edwards**. To us, in 1982 and 1983.

Mr. **English**. That is when you first noticed things were going bad.

Mr. **Edwards**. That the quality of credit was deteriorating, yes.

Mr. **Wilkinson**. May I add one additional thing.

Mr. **English**. Sure.

Mr. **Wilkinson**. You have just touched on one of the most significant things we are recommending to be changed. We went to the Federal Board just last week indicating that the time has now come for the Farm Administration to do the administrative work and not to try having it done through the banks.

In past years our interest was to try and keep the cost of this examination work as low as possible because it is added into that interest cost to farmers.

That has not worked during this stress period. The banks have not caught those changing situations rapidly enough. Our recommendation now is that the Farm Credit Administration will be solely responsible for the examination of those associations, and that is the exact issue that you are addressing, sir.

Mr. **English**. But don't you also have the authority to hire outside auditors to examine the entire system top to bottom any time you feel like you want to?

Mr. **Wilkinson**. No.

Mr. **English**. You don't have that authority?

Mr. **Wilkinson**. I tried to distinguish, and I am glad you have come back to that, we do not have authority to allow outside auditors to do examination work. The act requires the regulatory agency, as it does with the controller and other regulators, to do the examination.

You are speaking of the financial audits. And we have recommended to the system, and the system is now using outside audit firms, for the fiscal areas, the financial areas, not the Credit Administration, not the operation.

Mr. English. Why didn't you come to the Congress, to the Agriculture Committee, to me and other members and ask for this authority if you felt like you needed it. Obviously, according to Mr. Edwards, you all knew you were heading for trouble back in 1982 and 1983.

Why didn't you ask for that authority? I don't know of any member of the House Agriculture Committee that would deny that request.

Mr. Wilkinson. Because it was our—as I have indicated it was our interest, and I had a feeling that it was the interest of the Members of Congress to try to keep the cost of this Farm Credit System Program as low as possible to the borrowers, so we delegated it so that we wouldn't have duplicative examination or credit review programs over those portfolios on which the loans were being held.

Mr. English. In other words, you gambled and we lost?

Mr. Wilkinson. No——

Mr. English. You said you wanted to keep costs down. We are going to pay out far more assuming we follow the request of $5 to $6 billion and even more, maybe far greater than that. Certainly that is far greater than anything that would have been spent in trying to give you additional authority, particularly if we are talking about cease and desist authority, if we are talking about authority to remove people.

It wouldn't cost much money to do that.

Mr. Wilkinson. Even for those agencies that have additional authorities such as the Home Loan Bank Board and some of the others, they were doing the same thing in an effort to reduce cost. They, too, were delegating. And, I think, it is no secret to this committee that it is not just the Farm Credit System that is in difficulty today, it is the S&L's and many of the other credit institutions.

Mr. English. Mr. Craig.

Mr. Craig. Thank you very much, Mr. Chairman.

Governor, let me pursue for a moment the authority that you do or do not have, may or may not have, and what you are asking for today, because to me that is of some concern. It is of concern because we have been living with this situation in the 12th district longer than anyone else. I think it was some PCA's in Washington and Oregon and the south Idaho PCA, and you mentioned aquatics, and the problem that that got the 12th district into, and an attitude that moved them in that direction over a period of time as they attempted to expand their portfolio. I remember you coming to those of us in the Pacific Northwest and telling you of the problem in the 12th district. Was that 1982?

Mr. Wilkinson. 1983. Spring of 1983, I think, I met with you, Mr. Craig.

Mr. Craig. And that began a long episode that ultimately caused the closure of the south Idaho PCA and moving of its assets to the east Idaho PCA. Be that as it is now, let's talk about your authority.

Who pays the president of each of the 12 district banks?

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Mr. **Wilkinson**. The president of each of the 12 district banks is paid by his district board, by the management structure, by allocating those costs back through the operation of that institution. It is a private business function.

Mr. **Craig**. So you are saying that, in large part, the authority over that president rests with that board.

Mr. **Wilkinson**. That district board, farmer-elected district board.

Mr. **Craig**. Yes, I understand that.

In June of this year, in the final merger regulations that you people put forth, you say that the Farm Credit Administration may, by order of the Governor and on its own initiative, make changes in the charter of a Federal Land Bank Association or a Production Credit Association where the Governor determines that the change is necessary for accomplishing the purpose of the Farm Credit Act.

Mr. **Wilkinson**. Yes. This is a statutory authority, and it basically places upon the Governor the evaluation of what kind of service is in the best interest of all of the borrowers of a given district. In this case, the Spokane district. And if there is evidence that in a specific area, or with a specific association, that it is not functioning as efficiently and, therefore, farmers are not benefiting from the activities of that organization, then it is the ability under the statutes to make those changes as you have evidenced.

Mr. **Craig**. Prior to your amending of that regulation, it read, "the Governor shall have the power to direct at any time changes in an association's charter that are necessary to accomplish the purposes of the act." By me reading both of those, I come up with a conclusion that the power existed prior to the change of June, but you have broadened the definition or you have refined it a little in explanation.

Mr. **Wilkinson**. We placed it into a regulatory mechanism that we could use to effectively and appropriately in my estimation carry out the statutory authority.

Mr. **Craig**. In your comments with the chairman you mentioned a lack of authority, a lack of ability to move and make decisions that you or the Board felt were necessary to bring about better administration or changes in administration and practices at the district level.

You used the term "coerce." Would you broaden your explanation of that term? How do you coerce, or how could you coerce, or when could you coerce?

Mr. **Wilkinson**. At this time I, as Governor in the Farm Credit Administration, have essentially two authorities at the extremes—at the extreme ends of influence. In being able to bring about change either within a bank or a group of associations. The first authority is a very powerful one, Mr. Craig, and it is serving the funding of that institution, prohibiting that institution to go to the money market for the funds that it requires. Because the Governor does approve those funds.

That is a devastating authority, one which I have never used and hope I will never have to use. Because you do not penalize the district board, the bank, or the management, you penalize the borrowers with the inability to secure their funds.

The second authority is way over on the other end of that tangent, and that is the one I was referring to, and that is where we attempt to determine who is accountable. If it is a district situation, such as you and I talked about in Spokane, it is a district board that is accountable. And there we try to discuss, negotiate, coerce them into bringing about changes in their management structure, changes in their administration of credit, whatever is necessary.

Recognition of loan losses turning around the situation. How do we coerce? We basically plead with them to have them understand that the——

Mr. CRAIG. Wait a moment, Governor. Why would you want to plead with anybody if you have the power to cut off their blood?

Mr. WILKINSON. Because it is too severe a method of bringing about change.

Mr. CRAIG. Wait a moment. If you saw as you did the problem in the 12th district, I cannot understand why you couldn't walk into the 12th district board and the president of that bank and say, gentlemen and ladies, if you don't do the following things you are going to have to go somewhere else besides the funding corporation to find your money.

That is ultimate power. That is phenomenal power.

Mr. WILKINSON. That is correct.

Mr. CRAIG. Now, are they going to say buzz off, Governor? I doubt that very much because of the ability to sell bonds through the funding corporation and provide those assets at less cost to their borrowers.

You have ultimate authority.

Mr. WILKINSON. Yes, sir. That is ultimate authority.

Mr. CRAIG. But you just got through saying you didn't have much authority.

Mr. WILKINSON. I said that is an authority that I hope I never have to use, because what you are doing, Mr. Craig, is you are prohibiting 90-plus percent of the borrowers of that given institution or district from being able to secure funds because 5, 8, or 10 percent of those borrowers are in financial difficulty.

And I do not believe that that is the mechanism which should be used when there is a board that should be held accountable.

Mr. CRAIG. Well, I guess that is your perspective of it; certainly being there as long as you have, it would certainly be different than mine. But I would have to think if I were sitting on the board of the 12th district and you came to us and said, "You are in trouble; we view you as being in trouble because of a practice or practices that are costing you an awful lot of money in losses, fishing boats in Panama and Manila, nonretrievable, and you are out of your league," which was basically what was determined, "and those practices are jeopardizing your entire system. Now we want you to make changes, and if you don't make changes we have the ability to cut off your funding avenues."

What is that board going to do?

Mr. WILKINSON. That board is going to do two things, Mr. Craig. One of them is that it is going to go as public as it possibly can trying to evidence that a bureaucracy in Washington is impinging upon the welfare of its sound borrowers.

No. 2, they would have immediately, I think, been in contact with the appropriate committees of the Congress and Senate asking for oversight of the Farm Credit Administration to reverse its dire and serious actions in this particular case. It had—I think you have to go back and evaluate how the Farm Credit Administration for so many years had been attempting to work in an advocate-type way with the farmers who own this system, and it had worked so very well——

Mr. CRAIG. Oh, I see.

Mr. WILKINSON [continuing]. For 50 or 60 years. It was a proper relationship in those days. But things have changed, as you have pointed out. But I still contend that to actually use that very serious authority would have been too strong at that time and, sir, I think it is too strong to be used today.

That is the reason we have come from what we call intermediate authorities, similar to the other regulators.

Mr. CRAIG. Failure to use that authority or an unwillingness to use that authority has in my opinion created tremendous disruption in the 12th district. I believe that it was the problem in the 12th district that caused you to move or begin to lock at the concept of merging. Is that not correct?

Mr. WILKINSON. Yes, sir.

Mr. CRAIG. And the Federal Land Banks and the PCA's have gone through a very traumatic time trying to determine whether or not they should merge. Their autonomy, if you will, their independence under the system changed dramatically or is now being asked to be changed dramatically. You say that an association or in this case a board and its associations in the district would have done drastic things, pointing fingers at you as a Federal bureaucracy or a quasi-Federal bureaucracy reaching down and saying you will do certain things, when in fact that is exactly what you are doing today.

Mr. WILKINSON. No, no.

Mr. CRAIG. Did you not say merge?

Mr. WILKINSON. No, no.

Mr. CRAIG. You did not say merge?

Mr. WILKINSON. I think you are mixing two things.

Mr. CRAIG. Where did the concept come from?

Mr. WILKINSON. The merger concept in the case of Spokane came from the rest of the Farm Credit System, as Spokane had to go to the system asking for financial assistance. For it was no longer able through the Federal intermediary bank to provide the necessary funding to the number of associations that were nearing the stage of liquidation.

Mr. CRAIG. You did not OK the merger?

Mr. WILKINSON. We had ultimately to approve the financial plan which the Spokane board and management negotiated with the Joint Finance Subcommittee which represents the other 11 districts.

Mr. CRAIG. Your people did not participate in any of those discussions?

Mr. WILKINSON. Yes, we were participating in those discussions, yes. But the important thing that the system was mandating—the system was mandating—was before funds would go from Oklahoma or Wichita to Spokane——

Mr. CRAIG. I remember that.

Mr. WILKINSON [continuing]. The Spokane institutions would have to bring their funds together and utilize those funds as quickly as possible. That is a fiduciary requirement of every district board member across this country. We endorse that. That is the reason Spokane has gone through its consolidation of capital.

Having said that, that does not in any way take away the type of service which the borrowers in my estimation are going to be able to secure at their new joint service centers all across the Spokane District.

The capital is consolidated, not the service.

Mr. CRAIG. Service is not consolidated?

Mr. WILKINSON. No, sir.

Mr. CRAIG. The one stop banking concept the 12th district is promoting in its area of authority is not called consolidation?

Mr. WILKINSON. That is an effort to improve the service within the local community for those borrowers who wish to come in and talk, not only about their operating loans but to look at the total credit picture; operating credit as well as long-term credit.

They can go to the same local offices, many that have been in existence, and negotiate both short- and long-term credit from their Farm Credit System.

Mr. CRAIG. If you had acted—that probably is not a fair question. It is awfully easy to look backward, sometimes it is very difficult to look forward.

At the time your office began to recognize the problems of the 12th district and some of their troubled practices, and from that point until the district board moved to change things, what was the timespan?

Mr. EDWARDS. Mr. Craig, your question—I would like to go back and look at a little bit of history——

Mr. CRAIG. All right.

Mr. EDWARDS. To have stopped what took place in Spokane and what is taking place in other districts would have required the agency to have taken the kind of action you proposed the Governor take well before there was any statistical evidence there were problems in the district.

You would have to have had taken those actions as a result of your subjective evaluation of the management practices in the institutions. You could not have prevented the situation in Spokane unless you had taken action in 1978, fully 5 years before the numbers began to turn bad.

In the case of the Puget Sound Association, as an example, almost all of the loans on which they took losses at the period of time they went into liquidation were made in 1978 and 1979. They were not the result of practices that took place within the past 12 months.

Mr. CRAIG. When did your offices become concerned about the practices of the 12th district? When did you first express it to their board, telling it "You have problems here with your practices?"

Mr. **Edwards**. Over the past 3 or 4 years prior to their associations going into liquidation. Those concerns became severe, when the numbers really began to turn bad.

Mr. **Craig**. Three or four years prior to liquidation?

Mr. **Edwards**. Yes, sir.

Mr. **Craig**. Liquidation occurred when?

Mr. **Edwards**. 1983.

Mr. **Craig**. Three or four years, 19-what——

Mr. **Edwards**. 1978 and 1979.

Mr. **Craig**. I believe you just said if corrective actions had been taken in 1978 and 1979 we may have solved some of their problems.

Mr. **Edwards**. There is no question about that.

Mr. **Craig**. You said you first spoke to them in 1978 and 1979.

Mr. **Edwards**. That is correct.

Mr. **Craig**. One section of the law that dictates to you what you may or may not do, 12 U.S.C. 2254, speaks of your ability to require examinations and audits. It says:

> If the Governor determines that it is necessary or appropriate, the required examination and audits may be made by independent certified accountants—certified by regulatory authority of the State and in accordance with the generally accepted auditing standards.

Mr. **Wilkinson**. Yes. Since it is a legal requirement, may I ask our general counsel to respond?

Mr. **Craig**. Sure.

Mr. **Medero**. Yes, that statute does speak both of examination and of auditing.

Mr. **Craig**. So you have that authority now in the law.

Mr. **Medero**. That is correct.

Mr. **Craig**. You had that authority in 1979?

Mr. **Medero**. That is correct. And that authority to do the examinations and the audits was to a certain extent delegated to the district banks.

Mr. **Craig**. But you had the authority to do it yourself?

Mr. **Medero**. That is correct. The new requirement which is being imposed on the system by regulations requires independent audits. The position the agency has taken is that while independent audits can be carried out by independent accountants, the examination function is not a function accountants are qualified to perform, and so as part of the new legislation, the authorities of the agency are being reaffirmed rather than strengthened to put the FCA in a position of doing all examinations directly of both associations and banks and the agency is adopting regulation and the law is requiring the system have audited financial statements certified by public accountants, so the accounting function will be carried out by independent public accountants and the examination process which starts off by basing itself on an independent audit will be done by the agency, both of associations and of banks each year.

Mr. **Craig**. So what you are searching for is authority not like FDIC?

Mr. **Medero**. Mr. Craig, I think the authority would correspond to FDIC.

Mr. **Craig.** I guess at this point I am thoroughly confused. You say you didn't have authority, you don't have authority, and you are asking for authority.

Mr. **Medero.** Let me try to explain it once again. The agency had the authority to do examinations, but it was decided in the agency that because of the amount of time and the amount of work and the amount of staff members that would be required, that the examination function would be based upon credit reviews that were being done by the banks and that the agency would go in and look at those credit reviews and test those credit reviews to determine whether or not they were valid and then we would do whatever necessary work above and beyond that the agency felt was necessary to do the examination.

What is going on right now is that—the agency has decided that that system does not work, that the banks cannot provide the agency with an objective credit evaluation of those associations, and so the agency is taking back from the banks that examination function. It is going to do it itself. Now exactly the opposite is happening with the Federal Home Loan Bank Board. The Federal Home Loan Bank Board has now decided to go the other way and they are going to delegate that out to the Federal Home Loan Banks.

We have decided the process they are following now is something we have tried and does not work. We are going back to our statutory authority and requiring independent audits, and the agency itself rather than the banks will be doing all the examination work.

Mr. **Craig.** I still want to go back and followthrough—followthrough from where I am. How did you discover or how did you make the determination back in 1978, 1979, 1980, that the 12th district had some problems and at that time you began to speak to them of those problems? What caused that intelligence on your part?

Mr. **Edwards.** First of all, we do examine the bank itself as a part of that examination. We do spot check their examinations of associations and we review their workpapers on all of their examinations of associations. Information from those sources convinced us they had problems in some of their associations and in the process the bank was using to supervise them.

Mr. **Craig.** In those spot checks, was it feasible under this law that I just cited where you began to see some heat building, some problems occurring, for you to force an audit of that association?

Mr. **Edwards.** An audit of the association by an accounting firm would not likely have gotten at the problems that were ultimately the cause of their loan losses. They would have likely resulted in the audit firm rendering a clean opinion on those balance sheets because it was the management practice not to call up the assets at that point in time.

Mr. **Craig.** Management practices you determined were in trouble.

Mr. **Edwards.** That is right.

Mr. **Craig.** Four years, three years before the trouble actually brought the system down, you told the board about that, you apparently encouraged the board to move but they failed to do so.

Mr. Edwards. That is correct.

Mr. Craig. I recognize the independence or the separation of the two problems. We had a problem occurring here in the Spokane district that was unique probably to the rest of the districts at the time. It now looks like it was all one. I saw it as a separate event or events occurring apart from the current systemwide problem.

But it seems like it was the trigger that began the tumbling or at least the attention you all began to receive. We could have possibly corrected those problems it sounds like. I make the determination based on reading the law, that you had authority you didn't use and the system became, or situation became, so difficult, so impossible that the only solution left was merger, or the consolidation of assets.

Mr. Wilkinson. I think the uniqueness of your Spokane district, Mr. Craig, was primarily that it was in the commercial fishing area that we began sensing the weakness of the Administration practices. It began showing up, however, soon afterwards in the agricultural loans.

Mr. Craig. I accept that.

Mr. Wilkinson. And now has spread throughout much of the Farm Credit System, much of the Nation, because of the declining agricultural income commodity picture.

Mr. Craig. But we would not have lost south Idaho probably. There was one loan outstanding there, $7 million as I understand.

Mr. Wilkinson. Forestry loan.

Mr. Craig. Forestry loan. That brought that PCA down.

Mr. Wilkinson. That is right.

Mr. Craig. And that local association had on two occasions I am told tried to stop that, but the district bank allowed it.

Mr. Wilkinson. You are correct.

Mr. Edwards. Mr. Craig, may I address that point?

Mr. Craig. Yes.

Mr. Edwards. My staff has reviewed that and if that is the contention of the south Idaho PCA it is just not true.

Mr. Craig. I know there is a bit of disagreement.

Mr. Edwards. That loan was rejected by the bank on at least three occasions. I cannot tell you who overturned that objection, but it was overturned as a result of pressure from the management and board of that association.

The credit administration on that loan was appalling. You couldn't trace where dollars were going, you couldn't trace repayments, you couldn't reconcile the balance sheets. Any contention by the PCA that the loan was made as a result of pressure from the bank is just not so.

Mr. Craig. I take your word for it. I hear clearly your side of the story.

Mr. Edwards. Clearly that loan contributed heavily to the downfall of that association.

Mr. Craig. Because of all that happening merger became the buzzword, merger that was triggered by the failure of the 12th district bank to respond properly, and that was the first district that merged.

Mr. Wilkinson. May I respond to that, Mr. Craig?

Mr. Craig. Yes.

Mr. **Wilkinson**. The merger at that time in your particular situation was predicated on a mandate of the act itself, which says Governor, you must provide credit service to those farmers who evidence being creditworthy in that area. You may liquidate an association which was the option here in that the particular situation——

Mr. **Craig**. And that is what you did.

Mr. **Wilkinson**. If you do you have to provide assurances to that farm community that the Farm Credit Service will be available. What option does the Governor have? What option does that district board have? You look to the neighboring situation, you hope it is strong enough to be able to absorb that geographical area, to absorb those good loans and to be able to provide the service.

That was the type of merger that took place at that time. Now we are dealing with a much more broader kind of merger that we addressed in the consolidation of the capital issue within the Spokane district.

Mr. **Craig**. I accept that sequence. I guess what I am suggesting, and I will stop at this point in consideration of the other members of this committee, I still have a very strong feeling if action had been taken at the proper moment, back in 1979, 1980, or 1981, to correct the problems of the 12th district that then ultimately were not corrected and it tumbled into an asset merger following the liquidation of the south Idaho PCA and merging of its efforts or its good borrowers into eastern Idaho that maybe the idea of a systemwide merger would never have occurred.

Mr. **Wilkinson**. I don't know whether you nor I have the ability to tie all that together.

Mr. **Craig**. I am not sure I do. At least I can draw conclusions based on observation.

Mr. **Wilkinson**. I don't know I can either, Mr. Craig. I say that for this reason. The Spokane situation was considerably different than the second district that had to ultimately go to the system asking for assistance, and that was the Omaha district. The Omaha district had a different kind of agriculture that it was serving, grain, livestock, intensive grain, livestock. This had a responsible board; a district board. It had what we assumed in those days and our examinations pointed it out, a management team that was doing the job. But it could not handle the devastating blow of an economy that just went bad. I cannot say then that if we had done certain things differently in Spokane we could have saved the system from having to do what it is facing today, coming to you, the Congress, for assistance.

It just—when you are dealing with a single scope lender, which the farm credit system is, with such concentration of risk within one portfolio, I don't think any institution would be able to weather the major changes taking place.

Mr. **English**. Mr. Spratt.

Mr. **Spratt**. I would like to thank our witnesses for appearing before us today, and ask for their forbearance as I struggle to understand this system. I don't profess to know as much about it as I would hope to know. I would like to ask a few basic questions to start with.

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Do you have systemwide rules and regulations for financial reporting, for stating assets and liabilities on your balance sheets and for booking income and expenses on your profit and loss statements?

Mr. Edwards. The accounting requirements for system institutions are prescribed by FCA. We are in the process of issuing regulations regarding the disclosure to stockholders and the investing public, and those regulations will be final within the next few months.

Mr. Spratt. Who prescribes the rules and regulations? You used an abbreviated name? Who is it?

Mr. Edwards. The Farm Credit Association.

Mr. Spratt. So the FCA. The FCA is your organization, the national organization?

Mr. Wilkinson. It is the regulator. The regulator is separate from the Farm Credit System, Mr. Spratt.

Mr. Spratt. So we have a nationwide systematic set of rules for booking assets, booking liabilities, accruing income, and charging expenses.

Mr. Edwards. That is correct.

Mr. Spratt. What is your rule for charging off delinquent loans? What is a delinquent loan charged off or charged to, your loan loss provision?

Mr. Edwards. The chargeoff provisions are generally accepted accounting principles. Anytime an examiner or the management and board of the institution believes that part of that loan is not collectable, it should be reserved against or charged off.

Mr. Spratt. Are you familiar with the Federal statute that applies to national banks which generally says that when a loan becomes 4 months delinquent, it should be charged off?

Mr. Edwards. I believe the rules of the Comptroller of the Currency are 90 days past due unless the loan is well secured or in process of collection.

Mr. Spratt. Right.

Mr. Edwards. Our requirements say 90 days past due or well secured. We put it in nonaccrual status.

Mr. Spratt. When do you put it in nonaccrual status?

The general accounting rule is whenever a loan loss is foreseen, whenever the realizable asset is foreseen to be less than recorded, or stated on your books, then it is charged off.

Mr. Edwards. That is correct.

Mr. Spratt. If the loan is well secured and you determine the asset is only partially realizable, but some portion of it may be realized, then you charge off a percentage of it and not the full amount, is that correct?

Mr. Edwards. Anytime you believe you cannot collect the principal and interest, you stop the accrual of interest.

At a point when you believe part of that is noncollectable and it can be identified, you charge off the uncollectable portion of the loan, is that correct?

Mr. Spratt. The Wall Street——

Mr. English. Mr. Spratt, evidently we are having difficulty with the microphones picking up the sound.

I think what we will do is take one of the microphones from the witness table and let the witnesses share one and give Mr. Spratt one.

Mr. SPRATT. The Wall Street Journal stated in an article recently that the Federal Land Banks and the PCA's continue to accrue income on loans even though they are delinquent, past due, and even though some are in the process of collection, is that correct?

Mr. EDWARDS. If the loan is well secured, and the principal and interest is fully collectable, they continue to accrue interest on them.

Mr. SPRATT. So, if someone internally makes a decision that even when the foreclosure is completed there will be enough collateral to cover the principal, as well as the delinquent and accrued interest, then there is no—you don't cease accruing interest even though the asset is nonperforming.

Mr. EDWARDS. That is correct.

Mr. SPRATT. Do you think that is a good practice?

Mr. EDWARDS. I see nothing wrong with the practice so long as it is fully collectible.

Mr. SPRATT. In that particular case, you are making the judgement that you are foreclosing collateral that is probably worth something more than the stated debt.

Mr. EDWARDS. There are cases when that is done, yes.

Mr. SPRATT. Which only begs the question, why aren't you working out an arrangement with your borrower to restructure the debt or to allow him a moratorium during which he can get back on his feet and repay it?

Mr. EDWARDS. I think in most foreclosure cases you probably have already had that period of moratorium. When it is advantageous to do so, I think any lender ought to—and many institutions do—restructure loans, because then the return to the institutions is better than the foreclosure route.

Mr. SPRATT. Let's look at the picture in the aggregate. I understand you may be approaching Congress for assistance in the range of $5 to $10 billion, and yet until rather recently, I also understand that most of your constituent associations were showing modest loan loss provisions, and quite a few were running net income.

That would seem to suggest to me that there is a gap between the real economic situation, the real financial situation, and the manner in which you have recorded assets, and liability and accrued income.

Is that correct?

Mr. EDWARDS. There is a gap between what requirements of the agency are and what practices of the institutions are.

Mr. SPRATT. I measure the gap by what you seem to need, $5 to $10 billion, and that is a fairly——

Mr. EDWARDS. The request that the agency has put forward is for a backup line of credit for $5 billion to be used if and when the system's resources are exhausted.

Mr. SPRATT. How soon do you think you would be drawing down that backup line of credit?

Mr. EDWARDS. We think into 1987.

Mr. SPRATT. Rather soon.

Mr. EDWARDS. Yes.

Mr. Spratt. What I am saying is I don't think your financial accounting rules correspond to the reality of the situation.

Mr. Edwards. I don't think, Mr. Spratt, there is anything wrong with the rules.

There is a problem, has been a problem, with the implementation of those rules. The system is not yet up to full GAAP disclosure. We anticipate they will be by year end.

Mr. Spratt. You are making a distinction between——

Mr. Edwards. A distinction between what the rules require and what is being done by the banks.

Mr. Spratt. Who is responsible for the fact we have not had full implementation of these rules and regulations that the FCA has imposed?

Mr. Edwards. The agency promulgated them. It is responsible for enforcing them and has been responsible for implementing them.

They have been enforced as rigorously as we can, sir.

Mr. Spratt. What accounts for the lack of rigor? There is a missing element here. We have got books that appear to show the institution solvent, and now we have a request for a $6 billion line of backup credit.

Mr. Edwards. I think part of the problem is the speed with which the problems hit the institutions. The decline in agricultural land over the last 3 years has been some $150 billion. One hundred billion of that was in the year ending March 31, 1985.

In 1982-83, and into 1984, farmers absorbed that loss. In 1984 and 1985, their banks are beginning to absorb that loss.

The system institutions and the agency found themselves in a deteriorating environment they just plain never dealt with before.

Mr. Spratt. Do your books for 1985 reflect the loan losses that, in reality, exist in the country, in the agricultural sector?

Mr. Edwards. We believe they will by yearend.

The third quarter results from the system, and the disclosures with those project an increase in system research for losses in the neighborhood of $2 billion which would put those reserves in the $3 billion range by yearend.

Mr. Spratt. We started out by saying that a loss should be booked as soon as they can be foreseen, not when it is realized, not when it happens, but as soon as it can be foreseen.

Mr. Edwards. That is correct.

Mr. Spratt. What your associations, in effect, have done is waited for the loss to be realized, waited for the loss to become reality, rather than declaring what they clearly should have foreseen at the time.

Mr. Edwards. There is no question, Mr. Spratt.

But the building up of reserves for losses has lacked the need. The actual chargeoffs for this year, those that can be identified clearly enough to book them as losses, will be in the neighborhood of $600 million for the land banks.

Their reserves for losses at the end of the year will be in the neighborhood of $2 to $2.5 billion in anticipation of further deterioration in that portfolio.

Mr. Spratt. I am just saying that loan loss provisions are based on the principle of foreseeability.

Mr. Edwards. Absolutely, sir.

Mr. Spratt. General accounting provisions call for booking losses when they are foreseeable. If you haven't booked them when they are foreseeable, then you haven't complied with GAAP.

Mr. Edwards. That is correct, sir.

Mr. Spratt. How do you carry on your books what banks call REO or real estate acquired through foreclosure on deeds in lieu of foreclosure?

Mr. Edwards. It is carried at the lower of the bank's investment in it or its market value. If the market value deteriorates subsequent to its acquisition, a reserve for losses against that deterioration is required.

Mr. Spratt. Basically, that is in accordance with the general accounting procedures most financial institutions follow?

Mr. Edwards. I think so, sir.

Mr. Spratt. How do you appraise its current market value? Do you use outside appraisers or do you continue to use inside appraisers?

Mr. Edwards. Unless it is a highly specialized property, inside appraisers are used.

Those appraisals are based on current sales. In some parts of the country, establishing the current market value has been very difficult because sales just aren't taking place in the last few years. When that occurs, you take your best shot at it.

Mr. Spratt. Do you think the almost exclusive use of inside appraisers by the Federal land banks and the PCA's is a good practice, particularly in light of what we have seen in the last 2 to 3 years?

Mr. Edwards. We don't see anything wrong with that practice. The land bank appraisers have traditionally been well-trained appraisers. Their program is as good as any in the country.

Mr. Spratt. When you send your examiners to a land bank, Federal land bank, for an examination—as I understand it, you make a spot check of, in some cases—do you actually send a team out to examine periodically the district land banks?

Mr. Edwards. Yes, we do, and out into the associations themselves, yes.

Mr. Spratt. All right.

They take down a loan file and look at it and, I suppose, if it is a first mortgage loan they want to see that the mortgage is signed correctly, that the note is signed correctly, that—everything is in the file that is supposed to be in the file.

You have a checklist, and it first is a housekeeping inspection. Then they turn to the appraisal and check the loan-to-value ratio. What are your standards for a loan-to-value ratio?

Mr. Edwards. The standard deviation in the industry is 10 percent high or low.

Mr. Spratt. Ten percent, high or low. Does that mean the collateral should be 10-percent greater than the loan balance?

Mr. Edwards. I am sorry. Under the law, the land banks can't lend more than 85 percent of the appraised value of the security. The standard deviation in the appraisal industry is about 10 percent on the inside of the price.

On average, the land bank loans in aggregate are in the neighborhood of 60 percent loan to security.

Mr. Spratt. That had been my experience.

I didn't know the 85 percent was the statutory limit.

Mr. Edwards. Yes.

Mr. Spratt. The Federal Land Bank of Columbia has held 65 to 75 percent.

Mr. Edwards. That is correct.

Mr. Spratt. Once you bought 5 percent of the stock, the loan-to-value ratio was less than 75 or 65.

Mr. Edwards. That is correct.

Mr. Spratt. However, they did all their appraisals internally. I am not complaining, but I do think that poses a problem. It poses a problem for your examiners, because they don't know what land is worth in South Carolina, Georgia, or Florida?

Mr. Edwards. The associations are all required to keep registers of sales that take place in their territories.

Mr. Spratt. How do they update their book of comparable sales?

Mr. Edwards. They update them from courthouse records and in interviews with the buyers and sellers of properties that are used.

Mr. Spratt. So, your examiners have access to the so-called sales brochure, the comparable book of sales, and they look at those?

Mr. Edwards. That is correct. If there is any question about that, my examiners do and have gone out and talked to the realtors in the community and appraisers in the community.

Mr. Spratt. Do you make a spot examination of the district banks once a year? In the district banks, how often do they internally examine themselves?

Mr. Edwards. The examination of a district bank is an ongoing examination. It doesn't take place at a specific point in time. The examination that the bank performs of the associations is an annual examination done once a year.

Mr. Spratt. Have you ever cited as an exception or management instruction a case where farmer-elected boards have made imprudent loan decisions?

Mr. Edwards. Yes.

Mr. Spratt. What followup did you take on this citation in your audit report?

Mr. Edwards. We continued to follow up to see what actions have been taken to correct the problem, whether it is a training problem or an attitude adjustment problem.

Mr. Spratt. I am talking about where a farmer-elected board, say on a PCA, said, "Make this loan."

Mr. Edwards. Our followup is to see what the bank itself did to correct the problem.

Mr. Spratt. Has it been your experience, Mr. Wilkinson, or Mr. Edwards, or anyone on the panel, that occasionally loan officers are not necessarily good collection officers, and they are not trained at all in workouts. They have a certain line of training for which they are qualified, but they do not understand workout problems as well as they understand the administration and making of a particular mortgage loan?

Mr. Wilkinson. That is true, Mr. Spratt.

That is one of the realizations the system is facing today, because for so many years they were to be loan officers. They were to know the agricultural sector they were serving. They were to know the community they were serving. They never had the basic problems of workouts and loan restructuring and so forth.

One of the intensive training efforts that we and the System have brought about within the last several months has been in the very area that you speak of—is improved collection and workout relationships.

Mr. SPRATT. Would you agree that the land bank associations and the PCA are mainly—are in better positions than the average private lender in a workout, first because you had conservative loan valuations to start with; second, because your mortgage instruments are pretty well drawn. They provide for future advances. You have variable rates unlike S&Ls which have been stuck with fixed rate mortgages.

You have long-term mortgages. You are accustomed to lending for 30 years, very long terms which other lenders are only recently coming into doing.

Your security is ordinarily first lien. You have Federal preemption. You have no private sector shareholders to appease; you have a cooperative association. They would like to get a dividend, but they don't really expect it, so you have a lot of things going for you in terms of a workout that private institutions do not.

Would you agree with that?

Mr. WILKINSON. I think many of the things you have cited are proper. I think, however, that there is still accountability to the owners, the stockholders.

They may not get the dividend, because they have evidenced to their district board they would rather have that reflected in the lower interest rate, and because of their ability, they can do that, sir.

Mr. SPRATT. That is my point.

You have cooperative shareholders, so to speak.

Mr. WILKINSON. Yes.

Mr. SPRATT. So, they are a little less—their expectations are somewhat lower than the shareholders in General Motors or a public utility.

Mr. WILKINSON. Yes, I would say so.

Mr. SPRATT. You have more flexibility, more latitude in which to affect workouts. The reason I am laying this basis is that I have found your associations to be—in the cases where I have had to intervene or intercede or make phone calls on behalf of distressed constituents with financial problems—rather wooden and inflexible and rigid in their workout attitudes.

In one particular case, a particular farmer borrower had never had a delinquency before in his life. He was 62 years old, and he had a workout he was trying to work his way through.

Obviously, it was not going to take place overnight. He sold his timber for $400,000 on his farm. He went to the land bank after paying off the PCA and asked to apply that on prospective payments on his mortgage loan and he couldn't do it.

You know where it was applied? It was applied on the tail end of the loan to the last amortized payments on the loan.

This kind of attitude in the world we live in strikes me as being self-defeating. You are going to bring the house in on top of yourself if you follow this kind of practice.

I think you have the room, the latitude to work out of situations like this. You are going to lose something in the long run, but if you force property on the market to be sold on the courthouse steps, you are going to bring down the values, and you are just going to find yourself and other farmers further distressed.

Mr. **Edwards**. I think your observations, Mr. Spratt, have a good deal of validity to them.

The system's institutions, farmer boards are very reluctant to compromise loans in the system.

First of all, there is a problem with the expertise. They make loans. They don't collect them well. Farmers themselves sitting on those boards are the ones that ultimately make the decisions when they are going to compromise a loan or foreclose on it, and they are very reluctant to enter into compromises, even where you could demonstrate it might be in the best interest of the institution.

The fear that they would establish a reputation and that all delinquent borrowers would expect that and the attitutde that my loan is current and his ought to be too, and it is very difficult to do.

Mr. **Spratt**. Well, I just find the banks, sometimes, if they can't find a solution in the manual, they can't solve the problem, and an institution that was created to address unusual problems was created because financial institutions weren't providing credit to fill a role that was not being filled, has now found it is rigidly frozen into practices that don't serve the times.

Mr. **Edwards**. One of the aspects of our legislative proposal is aimed directly at that.

It calls for the expansion of the system's capital corporation. It would buy bad assets out of institutions. It would be staffed with people who are skilled in loan workouts and hope that you can put some of those nonperforming loans back on a performing status on a businesslike basis.

Mr. **Spratt**. I think you are going to have to develop some attitude and some procedures for workouts and convince your people out in the field that, while this is not optimal, it is something we are going to all have to live with, and I hope you pursue that.

Could I ask a few more questions about his testimony? Am I overstaying?

Mr. **English**. We are going to try to keep going around. We are not close to shutting down, Mr. Spratt. We are going to keep moving.

Mr. Wilkinson, recently you approved a salary raise for the Omaha Farm Credit Banks. The Omaha district is receiving assistance from other banks, it is my understanding, somewhere in the neighborhood of $592 million, and that the owners of those banks, of course, are going broke by the thousands, namely, the farmers themselves out there.

How do you justify that raise? Could you tell us, first of all, what it is? How much money is that fellow that is president of that Omaha Farm Credit Bank—how much is he making?

Mr. **Wilkinson**. $160,000.

Mr. English. $160,000. Is that the new level that he is making, or is that the level— —

Mr. Wilkinson. That is the 1985 salary level.

Mr. English. Is that the one you just approved?

Mr. Wilkinson. This has been his salary.

Mr. English. He is getting a raise, isn't he?

Mr. Wilkinson. I don't think any has been approved for him.

Mr. English. Is there one in consideration?

Mr. Wilkinson. Remember the salary is made, the determination of that salary is made by his own district board.

Mr. English. But you have to approve it, right?

Mr. Wilkinson. I, as Governor under the law, have to approve it only as much as it is within the range. The Farm Credit Administration establishes the range.

It is approved by the Federal Board, and yes, it does narrow down to a point where I do approve a specific figure, but it has to be within a range.

Mr. English. If you say no, it doesn't get approved. He doesn't get it, right?

Mr. Wilkinson. That is correct, but I have to have reason for saying no. In this case——

Mr. English. Looks to me like if you got a fellow up here operating a bank and that bank is going broke, and you are having to bring money from other parts of the country, from stockholders who themselves are going broke—in other words, getting bled white, and you are sending that money into Omaha, then you are going to give the fellow a raise.

That doesn't seem to me like he is joining the rest of the folks in at least doing a little bit of the suffering.

There is certainly a lot of farmers out there, I know in my district, that would love to have a net income of $160,000 this year.

Mr. Wilkinson. There are some right at this table that would, too, Mr. English.

Mr. English. Then the question comes back around. Then the question is, are you going to approve this raise?

Mr. Wilkinson. If that district board just files this salary for this individual who is facing some of the greatest stress that those banks have ever faced, and it is within the range, then it will be within my prerogative to grant that approval.

I would indicate, however, that there is far more than evaluating this on the basis of a dollar-and-cent figure. This gentleman has, within the year, within this past year, been given the responsibility of being accountable for all three of those banks, and those three are some of the larger banks within the total Farm Credit System.

Up until that time, he was the president of the Bank for Cooperatives. He is now responsible for all three of those, and this salary is reflecting additional responsibilities.

It is also reflecting the expectation on the part of the rest of the system that he is going to be able to handle those problems within his district, so that that $430 million that is going into that district from other sources will not be mismanaged.

Mr. English. How much is his raise going to be?

Mr. Wilkinson. It will probably be somewhere—we have not received any request for a raise. My understanding of the action of the Omaha board is they froze the salary of the top three officers in the bank.

They approved a scale which could result in salary increases for the balance of the bank staff.

My understanding is that that would average 2 percent.

Mr. English. Is this a new position then that is being created? Omaha? Is that what you are saying?

Mr. Wilkinson. I am not aware of any salary increase request.

Mr. English. This man is taking on new responsibilities. He has got to take on the Bank of Cooperatives. He has got to take on the PCA and Federal Land Banks. Is that what you are talking about?

Mr. Wilkinson. Yes.

Mr. English. Is that a new position?

Mr. Wilkinson. It is new only to the extent that the board voted to merge those three banks under single management.

Mr. English. That means you are creating, in effect then, a new position, is that correct?

Mr. Wilkinson. Chief executive officer of three banks instead of one.

Mr. English. What is going to be the pay scale for that fellow that takes over that position?

Mr. Wilkinson. That pay scale is exactly the one they cited, because——

Mr. English. $160,000? How much was this fellow making before, when he was heading up one of those?

Mr. Wilkinson. He was a Bank of Cooperative president, and probably that ranged in 1985—was $84,000 to $134,000.

Mr. English. So, the Bank of Cooperative folks, I guess, PCA's and head of Federal Land Banks—are they the same?

Mr. Wilkinson. No.

Mr. English. What do they get?

Mr. Wilkinson. The scale is determined by the size of the bank, the problems of the bank, and they are categorized——

Mr. English. You mean the greater the problems, the more money you get?

Mr. Wilkinson. The greater the responsibility both in administering the credit program, supervising the associations and yes, administering some of the problems.

Mr. English. So, if a fellow has got more problems, he is going to get more money.

Mr. Wilkinson. No, sir. No, no.

Mr. English. I thought maybe we were beginning to see light as to why we were having some of these problems here.

Mr. Wilkinson. I would point out, Mr. English, that in this case, this gentleman was not involved in creating the problems.

He has moved and is trying to solve some of those serious problems.

Mr. Edwards. Those salary scales, Mr. English, are based on a study of salaries of comparable positions and are generally paralleled between 80 and 90 percent of the compensation of the number two person in comparable size commercial banks.

Mr. English. What I would like—and I believe you all were told to bring this when you came before this committee—is the salaries of each of the chief executive officers for the 12 farm districts.

Have you got that for us?

Mr. Wilkinson. Yes. We have it.

We will submit it, Mr. Chairman.

Mr. English. Just read it out to us. Go ahead and read it out to us.

Mr. Wilkinson. I can read it right now, is you wish me to do so.

Mr. English. Yes, please.

Mr. Wilkinson. The chief executive salary of the Springfield District—that is in the New England Area. It is one of the smaller districts. It has all three banks under his management, and he is receiving $170,000.

Mr. English. $170,000?

Mr. Wilkinson. Yes, sir. The Baltimore District, the same identical situation, $163,836. The Columbia District, where one president has two banks, the Land Bank and the Federal Intermediate—I'm sorry. Now they have just merged all three. He has $189,750, and that is one of the newest changes. He has all three banks there.

Louisville, there you do have two banks under one president, the Land Bank and Credit Bank, and that gentleman is receiving $165,000. The Bank for Cooperatives is still under separate management and that individual newly appointed is receiving $125,000 now.

In Jackson, MS, the banks are still under separate management. The Land Bank president is receiving $118,580. The Credit Bank president is receiving $116,424. The Bank for Cooperative president—and it is a small BC—is receiving $105,930.

In St. Louis—St. Louis becomes effective in January, so this is proper.

Mr. English. How much is it going to be in January?

Mr. Edwards. I think the range is the same.

Mr. English. OK.

Mr. Wilkinson. I do not have that range, but in St. Louis two banks are under one president, and that has been $162,000.

Mr. English. It will be more in January then.

Mr. Wilkinson. It will increase as one individual for all three banks.

Mr. English. Did you approve that one?

Mr. Wilkinson. Not yet approved, not submitted to me.

Mr. English. Are you going to approve an increase?

Mr. Wilkinson. Depends what their recommendation is. I cannot answer that until I know.

St. Paul has all of their banks under one management. It is the largest district. That president is receiving $180,000. In Omaha, we have just been talking about that. The president has all three banks now, $160,000; Wichita is now under all three banks, under one president, $146,000. Texas under one man, $140,000. Sacramento, all under one, $180,000. Spokane, all under one, $130,000.

The Central Bank for Cooperatives—I will keep going for two other areas—located in Denver, CO, $163,000. The Funding Corp., chief executive officer, New York City, responsible for securing the funds, is the highest position, $205,900.

Mr. **English**. OK. Does that take care of all the chief executive officers then?

Mr. **Wilkinson**. Yes. I think you know what our salaries are as Government employees.

Mr. **English**. Sacrifice has got to be made somewhere. We appreciate you doing your part.

The question is, what are you going to do about these other folks? Are you going to let them share in being part of the solution to the problem?

I have the United States Code here. It talks about your powers and authorities. It says, "Except for associations, approve the salary scales for employees of the institutions of the system and approve the compensation of the chief executive officer of such institutions."

It doesn't say in there any kind of criteria. It doesn't limit you saying you can only do it under certain circumstances.

You are the final say. You are the man that makes the determination as to whether there is going to be any increases in salary of these folks or not.

I have got to say very candidly, Mr. Wilkinson, when we are looking at $5 and $6 billion, this certainly is not going to make a big impact. But I have got to say, as far as those farmers are concerned out there, under the circumstances when they hear about salaries of this range and then they hear about a district that, for all intents and purposes, is bankrupt, that they are having to put money into, they have a hard time understanding why you would approve any kind of salary increase whatsoever.

Have you got a message you would like to deliver to those farmers to justify those kinds of increases?

Mr. **Wilkinson**. I would say two things, Mr. Chairman.

No. 1 is, I think, that those farmers must remember that they own literally an extremely large financial institution. You are dealing in the case of these banks under these presidents with $8 and $9 billion, and in the case of St. Paul, $12 billion financial institutions.

I think if you looked in the rest of the financial world and you looked for those kinds of sized institutions, these salaries would appear to be relatively small.

What Mr. Edwards has pointed out is that we have for many years had a program of attempting to keep the salary ranges not competitive with the top positions of comparable institutions, but with the second positions, the vice presidents, so that we will have people who are skilled in the management of those operations.

The second point I would make would be that, remember, the control of these institutions is still within the hands of farmer-elected boards and those boards are the ones that recommend to the Governor the salary that they wish to have their chief executive officer achieve.

And, yes, No. 3, you are correct, the Governor does ultimately have to approve those salaries.

Mr. **English**. Let me ask you this then. You have said here that the stockholders out there, they are the owners, they are the people that run the show. These are their representatives.

We are having a lot of votes out there on mergers right now through every district. What would you think about requiring each of the districts to put these salaries as part of the ballot, let all these owners out there vote on whether or not they want to improve increase in salaries? Would you be willing to go along with that?

Mr. WILKINSON. I think, frankly, you would probably have at least stockholders who suddenly have more interest in the democracies which they are part of than ever before.

So many of the borrowers are interested only in securing a loan and what are they going to have to pay for it. They fail to realize, Mr. English, as you do realize, that this is a cooperative structure, farmer-owned, farmer-represented.

Mr. ENGLISH. Let me say that it used to be, Mr. Wilkinson. I am not convinced it still is.

I would say that it resembles more of a mutiny than it does any kind of a situation where you've got a cooperative. It looks to me like you've got the crew that is taking over the ship and it appears, you know, the question I am going to be trying to determine as we move along here today is whether you are on the side of the crew or whether you are on the side of the owners of the ship. That is going to be the principal issue that we are going to have to get down to when we really discuss these mergers and what they mean and how it is being done.

Right here we've got a very questionable issue from the standpoint I don't think that there are many stockholders, at least in my congressional district—and I am going to bet Mr. Craig is going to say the same thing—that are going to be approving big increases in salaries for the people who are supposedly the crew, the folks that are working for the system. I don't think you will find the owners that would agree to that and be part of that.

I would ask you to provide the clerk a list of those salary increases you just read off, if you would, Mr. Wilkinson.

Mr. WILKINSON. Thank you. Will do.

[The information follows:]

FARM CREDIT BANK CEO
RANGE AND SALARIES

District	Name	Bank & Grade	1985 Salary	1985 Salary Range	Position in Range
Springfield	Hughes	FLB-FICB-BC E	$170,000	$121,250-$193,750	Third Fourth
Baltimore	Swackhamer	FLB-FICB-BC E	163,836	121,250-193,750	Third Fourth
Columbia	Love	FLB-FICB-BC F	189,750	146,000-233,500	Third Fourth
Louisville	Schlader	FLB-FICB F	165,000	146,000-233,500	Bottom Fourth
	Montgomery	BC C	125,000	84,000-134,000	Top Fourth
Jackson	Bruner	FLB D	118,580	100,250-160,250	Second Fourth
	Coudra	FICB D	116,424	100,250-160,250	Second Fourth
	Toft	BC C	105,930	84,000-134,000	Second Fourth
St. Louis	Heitz	FLB-FICB-BC F	162,000	146,000-233,500	Bottom Fourth
St. Paul	Amdahl	FLB-FICB-BC F	180,000	146,000-233,500	Second Fourth
Omaha	Harling	FLB-FICB-BC F	160,000	146,000-233,500	Bottom Fourth
Wichita	Perry	FLB-FICB-BC F	146,000	146,000-233,500	At Minimum
Texas	Rogers	FLB-FICB-BC E	140,000	121,250-193,750	Second Fourth
Sacramento	Anderson	FLB-FICB-BC F	180,000	146,000-233,500	Second Fourth
Spokane	Krueger	FLB-FICB-BC E	130,000	121,250-193,750	Bottom Fourth
Central Bank	Harding	E	163,000	121,250-193,750	Third Fourth
Funding Corp.	Carney		205,900	157,750-252,250	Third Fourth
		Average Salary	154,201		

September 6, 1985

Mr. **English**. I want to step up very quickly to a couple of other points. It is a little different vein.

The Federal land banks in at least two of the districts recently have sold and financed land acquired by default or foreclosure by offering special terms; in some cases, the interest rate was reduced, in others, the borrower was not required to purchase any stock, and in some, both the interest was reduced and no stock was required to be purchased.

Do you believe these transactions are following the spirit and the intent of the Farm Credit Act?

Mr. **Wilkinson**. I think you have to recognize first you are not dealing with a borrower. The individuals who are negotiating the purchase of these acquired properties is not coming to the bank or to the association for a loan.

Mr. **English**. Mr. Spratt had a comment or question he would like to follow up on. Go right ahead.

Mr. **Spratt**. Is the purchaser under this contract of purchase and sale liable for the full purchase price by contract?

Mr. **Wilkinson**. Yes, because you have just hit the key word: He has a contract, an individual contract with the institution which holds that acquired property.

Mr. **Spratt**. Just as a signatory to a note has liability for the purchase price on a purchase money mortgage; however, he has liability for the purchase price, except it is evidenced by a contract rather than a promissory note.

Now, if there is a default, what is the remedy of the land bank? Is it not to foreclose?

Isn't the normal remedy in most States under a contract to purchase and sell to foreclose the equity of the contract purchaser at a judicial foreclosure sale under whatever State law provides?

Mr. **Edwards**. That would be their right. I don't know what their rights would be with respect to any deficiency that might result and whether they could proceed for deficiency judgment or not.

Mr. **Spratt**. The remedy you pursue would be the same remedy you would pursue if you held a mortgage.

Mr. **Edwards**. Absolutely. Subsequently, this is a purchased money mortgage. It is a contract to purchase and sale which is just another way of setting up a purchase money mortgage.

Mr. **Wilkinson**. That is correct, but the individual is not becoming a member of the Farm Credit System. He is not buying stock in it.

Mr. **English**. That is where we come back to a little thing called the law, Mr. Wilkinson, which is kind of an interesting thing.

The law says, when we set all this system up, says, if a loan is granted through an association, the borrower, and I quote, "Shall subscribe to stock in the association in the amount not less than 5 percent or more than 10 percent of the face value of the loan." That is what the law says.

Mr. **Wilkinson**. This isn't a loan. The bank retains the title.

There is no mortgage involved per se, and I am getting into a legal area and I think I better have my attorney speak for me, but——

Mr. English. I am not an attorney either, and we would probably do better if you and I talk about it before we get the lawyers into it.

Go ahead. I don't want to discriminate against lawyers.

Mr. Wilkinson. I want to make that distinction, it is different than a farmer securing a loan.

Mr. Medero. Mr. English, the agency has taken the position that in order for an institution to be able to dispose of its other real estate acquired, it needs to have the flexibility to be able to structure sales contracts and financing contracts in a way which will get rid of that property off the books of the institution as quickly as possible.

Banking agencies encourage institutions which acquire real estate to dispose of them as quickly as possible and get that money turned around so they can loan it out to other borrowers.

They have taken the position that the banks do have a considerable amount of flexibility in their attempt to get rid of property that they have taken in foreclosure and all of the restrictions, including the stock purchase restriction, don't necessarily apply to a particular situation.

You might, for example, have somebody who is not qualified to borrow from the farm credit institution buying a piece of property like that where you would have to be able to turn around and sell it to that purchaser, who might not be able to purchase stock at a farm credit institution. That is not always the case, but that might be the case, so it is a question of using some flexibility in disposing of other real estate owned so that the institution can get the property off its books and back into the borrowing stream as quickly as possible.

That is consistent, I believe, with the approach that the other banking institutions take.

Mr. English. Yield to Mr. Craig.

Mr. Craig. Thank you, Mr. Chairman.

I guess I fail to understand exactly how you are approaching this. If you are dealing with a commercial lender and FDIC steps in and causes a closure of a bank and a sale of its assets, it may negotiate the sale but it does not finance the sale. You have to come in with outside money and buy up the assets of that bank.

Mr. Medero. In the foreclosure of a financial institution or the liquidation of a financial institution, the FDIC does have a certain amount of authority to arrange financing.

Mr. Craig. But it does not loan out money.

Mr. Medero. It is not a banking institution. We are talking, Mr. Craig, here about institutions in most cases which are continuing in business.

Mr. Craig. I recognize that but institutions that have a capital problem.

Mr. Medero. That is correct. Some of them do.

Mr. Craig. Some of them do. Obviously they have had to foreclose instead of offer forbearance. They have got a problem.

They are in selling those assets that they now hold, they are financing the sale.

Mr. Medero. A farmer who sells his land and gives a purchase money contract is financing the sale and that represents a good part of the agricultural credit that is out there today.

Mr. Craig. But he is not a cooperative. He is an individual.

You are dealing with a bank that is short on money or an institution that is short on money. Obviously it was short on money.

It is now holding assets but it is financing the sale of those assets long term instead of saying, we will sell these assets, discount them if you have to, go find your capital, come in and buy.

Mr. Medero. If they can find someone who, a borrower can come in and may not like the terms, for example, a borrower may be dealing with an institution whose interest rates are higher than commercial banks. That borrower or that person could very well go out to the First National Bank in whatever the city is, get the financing and come into the bank and say, "I want to acquire that property and finance it with outside money."

The institution that is trying to sell the property always wants to realize the maximum amount possible and get it as quickly as possible, but in some instances, in order to get the property off its books and back into production, it is necessary for it to fianace the sale by a purchase money contract.

Mr. English. To all of us folks that aren't lawyers, Mr. Medero, is a loan is a loan is a loan.

Mr. Medero. That is correct.

Mr. English. What you have done is you have loaned money.

Mr. Medero. That is correct.

Mr. English. It says right here if a loan is going to be made through an association, and it is by an association, that that borrower shall subscribe to stock and in this circumstance, you are not requiring him to buy stock.

Now, let's go on, Mr. Wilkinson. We will take the next little step.

What do you think about the business from the standpoint of the Farm Credit Act and the intent and all this business about cooperatives we have talked about?

Remember I was saying a while ago I wasn't so sure it is still a cooperative and this is another reason why I am not sure it is still a cooperative other than in name only.

To refuse a stockholder a loan and then go out and get a fellow who is not a stockholder and say, "Hey, we are going to give you a better deal than we are giving our own owners. We are going to charge you a percentage point less in interest. We are not going to make you buy any stock. We have got all kinds of good deals for you. We are going to let our owners out there carry the freight."

Does that fit in this idea of what a cooperative is and what the whole intent was to band together for the good of all? Does that fit in with all that?

Mr. Wilkinson. I think you would want to recognize before this instititution ever acquired this property, it will have gone through quite a process of attempting to restructure the loan with the regional land bank association borrower, and would have tried everything possible so that they would not have to have acquired that property. That is their last resort.

Mr. English. That is fine and great. I would hope that would be the case regardless.

That still doesn't get me back to my problem, and that is the question, why are we going out and offering some fellow who is not even a member of this cooperative, doesn't have to be a member, and we are going to go out and give him a better deal than our own members?

That is kind of like the bank down here, we are loaning a fellow enough money to buy a car and he is going to buy that car at 12 percent. That is fine. We do it and the guy can't make his payments and we all understand what happens—bank foreclosures, they take the car back.

Then they go back to another guy and say, "Hey, we are going to make you a better deal. We are going to let you buy this car, but we are only going to charge you 10 percent." Now that is not fair and that is not right.

Mr. Wilkinson. You do that for two reasons. You do what we are talking about here for two reasons.

No. 1. is, I believe, it is the policy of the farmers of these communities and it is certainly the policy of the Farm Credit Administration that we do not want to see these credit institutions being major holders of land.

Mr. English. Where does that fellow that owns this business, supposedly that fellow that is a stockholder and member of the cooperative, where does he fit into this picture?

I haven't heard him mentioned much. He is the guy that is getting stuck.

Let me ask you this. You were talking about all this business we are going to work with all these people and that is what we are encouraging. I have got a lot of farmers out there probably watching this today that are going to say, "You don't know much about what is going on out there in the system if you really believe that is what is happening, because it isn't."

Let's shoot first; bang, you are dead. That is the reaction these days: Foreclose first, ask questions later. That seems to be the approach.

Now, how many of these farmers that are getting foreclosed on out there, how many of them are having this evaluation made, say, "we will now maybe if we give this fellow back his money that he paid for stock, buy his stock back from him, and maybe if we go out and drop his interest rate a point or two, he might make it."

Is there any of that kind of evaluation going on for any of these fellows that are getting foreclosed on?

I haven't heard of a single case where that has happened.

Mr. Wilkinson. There is much of that going on but it goes on before you ever hear of foreclosure.

Mr. English. You are telling me then what is happening out there in the system today is that we have banks that are buying back stock from members and reducing interest rates for members so that they don't have to foreclose on the loans.

Mr. Edwards. There are restructuring loans going on in the system now.

Mr. English. Do they give them back their money for the stock? Do they drop their interest rate on those restructured loans?

Mr. Edwards. Those restructured loans would be terms extended, principal amount reduced, interest rate reduced. I don't know how those would break down into categories, but that is basically the tools you have to deal with in restructuring, whether you have given the stock back or reduced the loan or reduced the principal.

Mr. **English**. You are giving stock back or buying it back?

Mr. **Edwards**. I don't know of any case where stock is being given back.

Mr. **English**. That is a good chunk of the money, 5 or 10 percent of the loan. It might make a difference whether the guy could pay his loan back.

Mr. **Edwards**. When you are selling property it has been necessary to acquire, you are in a little bit the same dilemma that Mr. Spratt talked about earlier with a borrower.

Are you better off to restructure the loan or are you better off to foreclose? When you have got acquired property to sell, members are on the hook anyway. It is costing them 10 and 11 percent a year to carry that property.

So every day you have got it on the books it is costing your good members money.

Mr. **English**. It is also costing them whenever you offer this kind of situation because anyway that you cut it, whether it is costing money, the operation of the association, all those expenses have got to be passed on to the borrowers. And you have got a variable rate locked in on this thing.

Mr. **Edwards**. But it is the restructure you are talking about.

Mr. **English**. You can raise those rates up there, but here we are going to let another fellow in, he gets in light. He doesn't have to buy any stock. That certainly has an impact on the overall cost of operation.

He doesn't have to pay as high an interest rate. That certainly impacts on the overall operation.

It means what is likely to happen is the other members of the association, the real owners of the association, are going to be paying a higher rate of interst.

Mr. **Edwards**. They are also going to be paying a higher rate of interest, Mr. English, when you restructure and compromise indebtedness.

Mr. **English**. We are going to get to that. We will examine that area pretty good and thorough.

Don't you think this really destroys the whole perception and certainly the concept of cooperative? What do you think the members out there themselves are thinking about this kind of an operation.

Mr. Wilkinson, I am going to let you answer that. This one is not a legal or bookkeeping question.

Mr. **Wilkinson**. I think you have to put yourself in the position of the 85 or 90 percent of the rest of the members of that association, Mr. English, and ask yourself, what is going to be the most efficient, effective, businesslike way to handle those properties? You presume that they have done all of the forbearing and all of the negotiating and then that association of yours ends up with that property.

Now, you sit there asking yourselves, as a farmer who is paid his interest and his principal on his loan and he wants to keep the cost of his credit down as low as possible, he has got to get some of that loss out of there.

His response, in my estimation, as a businessperson would be, sell that property where you can get the greatest return as fast as possible back into my association, and that is what has been done through this contractual process and that is separate from being part of the cooperative process.

Mr. **English**. Why don't we put that one on the ballot as well when we are talking about salaries? What do you think about you folks out there that are owners and members of this cooperative? What do you think about offering to our nonmember friends over here the opportunity to get a loan from us without buying any stock at a lower interest rate?

You have got to understand this probably also means your interest rates may go up so we can offset the fact this fellow down here that doesn't buy this stock or anything, he is not carrying his, you know, he is not carring his heavy load of the burden as you are or the expenses.

What do you think would happen if we put that on the ballot?

Mr. **Wilkinson**. I think if you put the other side of the financial equation in saying, I want my association to hold that acquired property until my association can find a borrower who will come in, who will pay his stock, who will be treated exactly like everyone else, see if they want to buy that even if it means holding that acquired property for literally months.

Mr. **English**. That is giving us a little fairy tale story to present to them. Let's give them the cold, hard facts in the light of dawn and let them make these decisions on that basis.

Mr. **Wilkinson**. May I raise this point with you because you and I are not differing on the concern regarding the cooperative structure.

I guess what I am myself searching for is this: Are we asking whether the cooperative principles of a farmer-operated credit institution continue to exist today in today's distressed economy?

Mr. **English**. It is not today's distressed economy because we are dealing with what I think are two different worlds. I think you have two different situations within this system right now.

You've got one over here as it applies to the financial difficulties of the system. That is one thing. You have the authority to deal with that. You have had all along, and the question is whether you are going to respond to it.

You have got another over here which is called merger, and merger is where we take away the authority. That is where we have the mutiny on the ships I was talking about. The mutiny is underway and the question is how we look at these two items.

I am all for dealing with the financial difficulties of the system and I am going to do everything I possibly can to make sure this system survives, but I am not going to be a part and I am not going to have this hocus-pocus that is being presented that the financial difficulties that are taking place in this system are dependent on them merging because that flat is not true.

We are going to strip away the hocus-pocus in a minute and get down and take a good, hard look at this issue on merger, but first I am going to let Mr. Craig ask whatever questions he has.

Mr. CRAIG. Thank you, Mr. Chairman.

Governor, in the proposal you have presented before the Agriculture Committee in your restructuring and need for greater authority along with additional moneys, you said, "Government and system means would be principally used to fund operation of a financial warehouse for nonaccrual loans and acquired properties in the system's capital corporation."

I am quoting from the yellow sheet that was handed out at a meeting, and I think this came from you folks.

Mr. WILKINSON. It came from the Farm Credit System, Mr. Craig.

Mr. CRAIG. I am assuming that these acquired properties would be purchased by this capital corporation from associations who had acquired them through foreclosure and that would remove them from their books. They would be paid whatever the negotiated amount was.

How would the capital corporation then liquidate those new assets if you will?

Mr. WILKINSON. In much the same way, Mr. Craig, as is already in existence in Spokane where the capital corporation has done exactly that as it has worked with the banks and the associations in that district.

Mr. CRAIG. That is how?

Mr. WILKINSON. That is, they have purchased that at market value, if I recall, market value. In other words, the banks and the associations have already taken a significant write down and that is being absorbed within the district.

The capital corporation then will, as Mr. Edwards indicated earlier, have a staff of individuals that will be in a position to attempt to, if at all possible, work out that loan. The farmer may still be involved.

Mr. CRAIG. I understand that is a nonperforming loan. I understand that side of it.

I am talking about acquired property because it mentions nonaccrual loans or basically loans in default or troubled loans or nonperforming loans versus acquired property.

How will they handle the property?

Mr. WILKINSON. That capital corporation will have representatives as they do in Spokane and they will be negotiating where they can find a purchaser of that property in a manner that will return as rapidly as possible and as much as possible funds back into the capital corporation, back into the capital corporation in a sort of revolving basis so that capital corporation will be able to go and do the same thing elsewhere in a different district or whatever it may be.

It will have business opportunities to acquire and to sell, to negotiate.

Mr. CRAIG. Will it loan money?

Mr. EDWARDS. The capital corporation under our proposal has authority to loan money to protect its collateral position and preserve its position in a loan. It does not have authority to loan money beyond that.

Mr. CRAIG. In other words, if it acquires a given piece of property, it may negotiate a contract with a potential buyer for so much down at a certain rate of interest for a certain period of time. Is that what you are saying?

Mr. **Edwards**. That is correct, sir.

Mr. **Craig**. In other words, it would have the same authority to offer out loans in essence that you are now allowing or that associations are using for the liquidation of acquired property.

Mr. **Wilkinson**. Essentially, yes.

Mr. **Craig**. It just pools it all.

Mr. **Wilkinson**. The basic principle is exactly what you have indicated. It pools it.

It totals those losses off the books of the 12 districts and their lending institutions so they in turn hopefully will be able to moderate their interest rate and will be able to get back into the business of making sound loans.

Mr. **Craig**. If I am a PCA or a Federal land bank member and my neighbor's ranch is in that pool, because the association foreclosed on him, he went out of business, I can approach my association to buy out that loan if I have the assets; is that correct?

Mr. **Wilkinson**. Yes. If you are going to secure a loan from that PCA or institution, you will buy stock. If you are coming in funds from another association and you are going to buy funds from a corporation, no. That is a contractual deal.

Mr. **Craig**. Boy, we are splitting hairs. Because if that association currently holds it as they are now, because this structure isn't in place, I guess I can, if I am not a member, but I am not sure I can if I am a member.

I don't know that has been made clear here, negotiating a sale with that association for your acquired property on a contract. I assume that is what we worked out, so much down, so many years extended period of time, a given rate of interest, I assume variable because that is what the Federal land bank rate is now and has been.

So, what you are saying is a contract is not a loan.

Mr. **Wilkinson**. That is what I am saying.

Mr. **Craig**. Although it still means money.

If I acquire from an insurance company a $300,000 loan to acquire property, or if I go to a farmer and buy his property worth $300,000 and he hands it over to me for so much down and takes the paper on it, he has loaned me $300,000 worth of property to use until I can pay for it, whereas the insurance company would loan me $300,000 worth of money, paper, to go acquire it. I know in a legal sense a loan is not a contract, but I know in a capital market sense that I can acquire a loan by acquiring the property the loan is on, if it is that type of assumable. We are really splitting hairs here, and I think that is what the chairman is getting to.

Now, I can appreciate the idea of not offering—I mean there is a point where you can offer no more to a member, they simply cannot perform. But I find it very strange that if you are going to take a given loss, you recognize that is going to happen, you recognize once you acquire this property you may have to discount it 20 percent or 30 percent, whatever it takes to move it out to make it a performing asset. I guess I just have a very difficult time understanding that kind of a relationship.

Mr. Wilkinson. I think what we tried to evidence is that it is our desire, and presumably that of the system, itself, all the way through, that it will go just as far as it possibly can with that original borrower.

Mr. Craig. I accept that.

Mr. Wilkinson. And yet if they do not evidence that they can handle this particular piece of property on into the future, then it has no choice——

Mr. Craig. But at that point, we say that we have a loan versus a contract, and anybody who borrows money from us has to acquire stock, but anybody who borrows land from us, until they pay for it, doesn't have to acquire stock.

Mr. Edwards. Would you agree, Mr. Craig, that the terms of the sale influenced the price?

Mr. Craig. Of course.

Mr. Edwards. So, then, if I sold you a piece of property at 6 percent, you might be willing to pay more for it than if I sold it to you for 8.

Mr. Craig. Sure.

Mr. Edwards. If I sold it to you and required stock, you might pay less than if I sold it and you didn't require stock.

Mr. Craig. Yes, but——

Mr. Edwards. You may well, in negotiation of a sale contract at a concessionary rate and without stock, wind up in precisely the same place.

Mr. Craig. But to hold the integrity of your co-op with your members, and you have assets here, why not say to that potential buyer, "If you can get 13 percent money from an insurance company to buy this asset, we will discount the asset down so that you only are paying 10 percent of your loan, on your loan." Same difference. And then you are holding whole the integrity of your co-op or your cooperative and the arrangement that those stockholders have with it.

You are saying, "We will not violate the relationship we have had over the years, to borrow money from us, you must buy stock in us", because you are now saying, "To borrow money from us or borrow land from us, you may not have to buy stock."

Mr. Edwards. Which seems—clearly, if you can sell that property at a price that is advantageous to the association under the circumstances you outline, that is fine. Do it that way. But the facts are that the land bank system has got some $675 million worth of acquired property, and carrying that is costing farmers $65 million a year. You dispose of it on as advantageous of terms as you can dispose of it.

Mr. Craig. You are carrying it?

Mr. Edwards. But as an earning asset.

Mr. Craig. So what if you got cash for it?

Mr. Edwards. Then you got cash, that is an earning asset.

Mr. Craig. And let's say you sell it long-term, so you are obviously going to sell at two or three points less than you would loan out money for a current operating line. I would assume that.

Mr. Edwards. The terms on sale contract would vary by contract.

Mr. **Craig**. I am aware enough of the banking system, I happen to have bought land through the Federal Land Bank, and I also have helped finance or work out operating lines. There is always a difference, several points difference, between long-term capital kinds of purchases and short-term operating lines.

Now, it would seem to me that the difference, if you could acquire cash instead of paper, to move that back into your system to start that money earning maybe 12 percent instead of 10 percent or 12 percent instead of 9 percent, soon you begin to make up the difference of the loss or the discount that you had to take to move the asset, and you have still held the co-op whole in the concept that it was originally arrived at under the law.

Mr. **Edwards**. Clearly if you could arrange a sale under those terms, you were advantageous to do so You cannot, however, always do so. You can discount the property, you can cut the interest rate, you can——

Mr. **Craig**. I understand your position. I think you understand ours and the concern that we have for the integrity of the system, more importantly, its stockholders.

Mr. Chairman, let me pursue another—why don't you start, Mr. Chairman, with the consolidation issue, because I have some questions that will, I think, blend into your concerns.

Mr. **English**. Thank you very much, Mr. Craig.

As I say, I think we are dealing with two different issues here that face the Farm Credit System. One deals with the financial difficulties the system is facing. A good deal of that is tied to the fact farmers haven't been able to pay their loans. That is the problem. If we see legislation adopted in the farm bill and nothing done about trade, as it stands now, we may see farm prices go even lower, which means the Farm Credit System isn't going to be coming out of this difficulty. They are going to be tied to those prices.

This other issue, the merger issue, is one that hasn't got much attention. I want to get into that. If all the association mergers now in the works are accepted by the stockholders, it is my understanding that you will have approved the disappearance of 277 local associations just in this calendar year. There would only be 526 associations left on January 6, 1986. The reason that has been given by the district banks, which are pushing for the mergers of the associations into single units, are the consolidation of capital and decreased cost of operation.

What I would like for you to answer now, Mr. Wilkinson, is what can the district do in those areas after the merger that couldn't be done before the merger?

Mr. **Wilkinson**. What they can do after the merger, Mr. Chairman, is to make available for their own use all of the capital that exists within that district. It consolidates any of the reserves which have been accumulated for losses, it consolidates the capital instead of having those financial resources sitting idle, and of PCA's throughout their district.

Mr. **English**. Let's examine that a little bit. The Farm Credit Administration issued a regulation in September which allows the Governor to move the capital from any unit in the system to any other unit, and you have had that authority since 1981.

Now, I don't understand, then, why if you could issue the regulation—that is all you had to do was issue the regulation, you had the authority to do it—what does a merger do that you didn't have the authority to do?

Mr. **Wilkinson**. It was never the intention, Mr. Chairman, of FCA nor its Federal Board to utilize that authority to do the massive job of consolidating capital, which the system is recognizing is its own responsibility.

Mr. **English**. Now that is where the point comes down, Mr. Wilkinson. The point is that if this is the principal purpose, you have had that authority all along. You could have done it. Mergers wouldn't have been necessary, elimination of the cooperative nature of this whole system wouldn't be necessary if you had done that job, and you didn't do it.

Now, you do it in September, whenever the mergers start taking place, now we got some of the district banks that are telling their local association now we have got to merge or there won't be any salvation for this system. We have got to do it so we can pool the money. You just got through saying that, and that is not true, Mr. Wilkinson.

Mr. **Wilkinson**. What is not true?

Mr. **English**. It is not true you have to have these mergers take place before you can pool this money.

Mr. **Wilkinson**. No, that is correct. What is the alternative? What is the alternative?

Mr. **English**. The alternative is for you to utilize your authority, put this regulation into effect, put this regulation into effect long before September.

Mr. **Wilkinson**. There is another alternative. The alternative would have been for those Production Credit Associations to have gone into a loss sharing contract with the Federal Intermediate Credit Bank, which would have assured that bank that if this association over here that is now insolvent is to be preserved from being liquidated, and that is one alternative that is not one that we can acknowledge, Mr. English——

Mr. **English**. That was authorized in 1981, and it is my understanding that they already have those loss sharing agreements that have been signed among those different associations.

Mr. **Wilkinson**. The basic loss sharing agreement goes long before that.

Mr. **English**. They have had the authority to do it, you could have done it. Why do we have to come down and strip away the control and authority of the stockholders of this cooperative and eliminate this cooperative from a practical standpoint?

Mr. **Wilkinson**. Let's not mix that loss sharing agreement with what we are talking about here today. That was a pledge to the investment community the collateral would stand behind all the loans, and when and if necessary, the reserves of those PCA's would go to the banks and the banks into covering the investment requirements.

The alternative would have been for those associations to contract with the bank in a business arrangement, not under the law. They could have done that, but it would have violated the point that you have stressed all morning, it would have violated cooperative principles.

Mr. **English**. You wouldn't have had to have violated that cooperative principle, you had the authority to do it.

Mr. **Wilkinson**. Would you have wanted a Government agency to go against the wishes of the stockholders?

Mr. **English**. I have no indication whatsoever the stockholders would not agree to that kind of a move. I certainly would say that the stockholders would prefer that action rather than to strip them of their total authority, rather than have the type of coercion that they have been submitted to.

Let me go into this. The Farm Credit Act, Mr. Wilkinson, in your regulations, speaks of merging associations when two or more associations' boards recommend the plan. The next step is that the district board approves the plan, and then you get the chance to give the preliminary approval of the plan itself. Only after this do the stockholders vote and approve the process before it starts all over again.

It starts down here when you got two associations, local associations, local people who decide they want to merge. Then they put together a plan. They submit that plan to the district bank, the district bank approves it, or whatever.

Let's assume they approve it and pass it on to you to give your final approval, that is the way mergers are supposed to take place. Let's take a look at what is happening. That is what Congress intended, by the way. Instead, we have the districts that are designing the mergers, not starting down here at two local associations that decide they want to merge, the district decides to merge; then they come down and tell the stockholders, "You will merge, you will merge, you will take this action." That is how it is happening.

Why have you allowed that kind of situation to develop, Mr. Wilkinson?

Mr. **Wilkinson**. Because the ultimate decision is still that of the stockholders.

Mr. **English**. That isn't what is called for in the act, is it? How many of these local associations, how many cases do you know of where you have had two associations that have come together and decided to bring this merger about in the different districts who have originated this idea?

Mr. **Wilkinson**. In the early merger programs that we talked about?

Mr. **English**. I am talking about this merger taking place.

Mr. **Wilkinson**. The merger to consolidate capital, it has been recognized as a responsibility of the district board and bank management, as in Spokane, and in Omaha, to try and comply with the business agreement——

Mr. **English**. In Omaha, I am talking about the local associations, that is where it is supposed to start, not in Omaha and Spokane.

Mr. **Wilkinson**. But in those cases, they had to commit their capital resource——

Mr. **English**. We have already discussed the fact you had the authority to deal with that, they didn't have to merge to use those capital resources, to bring capital resources from other parts of the country to the rescue. They didn't have to give up their local authority to do that.

Let's talk a little bit about coercion. Let's get into coercion. Our investigations have certainly found instances where district bank managers have been trying to force the stockholders into a vote on this merger. Let me give you an instance.

The board of the Anadarko, OK, Federal Land Bank Association asked Jack Perry of Wichita what would happen if their stockholders failed to vote for the merger proposed there. He wrote them a letter saying the district could reassign all of the Anadarko loans to another association, eliminate all payments to the association from the Federal Land Bank, but that the local association would still be liable for providing capital to the bank under the loss-sharing agreement.

Mr. Perry went on to say, and I am going to quote here, "I would hope that we would not have to use this approach in the future. However, if the viability of all associations and Federal Land Banks are at stake, I feel certain any and all action would be considered."

Now the elected chairman of the Anadarko board wrote me a letter on this, and he says, and I quote, "I hate to see the loss of all local control and so does my entire board of directors, but do we have a choice?" In effect, either commit suicide, or we are going to kill you, that is the message that was sent forth with this letter.

Is that consistent with your policy, Mr. Wilkinson?

Mr. **Wilkinson**. No, it is not, Mr. English, and we are very familiar with that letter, and we are very familiar with that situation, and Mr. Edwards responded immediately when he heard of that, and he should respond to you right now.

Mr. **Edwards**. We received notice of that letter several days after it was written——

Mr. **English**. Where did you receive the letter from?

Mr. **Edwards**. I received it from my staff.

Mr. **English**. Where did they get it?

Mr. **Edwards**. They got it from somebody in the district.

Mr. **English**. Somebody from the district or from the district office?

Mr. **Edwards**. Somebody in the district.

Mr. **English**. The impression I got is that people suddenly realized they put this thing in the unvarnished truth, it was a little too candid, and people started squirming and jumping, and they started covering their tracks real quick. Isn't that more nearly the truth?

Mr. **Edwards**. I can't answer that. My staff received the letter from someone in the Wichita District. When I received the letter, I sent a letter to the chairman of the Wichita board and informed him that the bank could not take the actions it was proposing to take as a result of failure of any association to approve the merger, and if there were coercive tactics going on, any support we had provided that merger would be withdrawn.

Mr. **English**. Good. We are going to give you some more instances where you can withdraw that support. We are going to let you have a few more instances. The board, of the Southern New Mexico PCA, refused to sign the district plan to merge all the

PCA's into one. They wouldn't submit it to a vote in the local association.

They were also warned that if they would not sign, the district would set up a PCA in direct competition, and this threatened the economic viability of the current PCA's. This has already happened, of course, in Idaho. We have seen that case. Would you care to respond to that, Mr. Wilkinson?

Mr. WILKINSON. Yes; I think the decision that has to be made by the district board, and ultimately it comes to the Governor, is, as you look at all of the borrowers of that district, how best can those borrowers in a given area be served? If there is an association there that for some reason, because its board members are protecting their own interests or whatever it may be, are unable to provide the services as efficiently, as rapidly, as totally——

Mr. ENGLISH. Let me just break in on you there, Mr. Wilkinson. What is the difference between what the message that was sent to the Southern New Mexico PCA, what is the difference in that message and the message Mr. Edwards told us you all were so opposed to that was sent to the Anadarko Federal Land Bank? What is the difference? They are both coercive.

Mr. WILKINSON. I think in the one you cited——

Mr. ENGLISH. One is in writing and the other is verbal, that is why.

Mr. WILKINSON. No, it is just an acknowledgment there is a time and place where there may need to be an overchartering, and that is different than——

Mr. ENGLISH. Either commit suicide or I will kill you, that is the message.

Mr. WILKINSON. No.

Mr. ENGLISH. Tell me the difference. It says right here, the point—the thing they were told is "If you don't vote for this, we are going to set up a competing PCA." In other words, "We are going to put you out of business." Isn't that right?

Mr. WILKINSON. All right, let's go back to a very basic point. The Federal Intermediate Credit Banks is the creditor, is it not? It is extending loans to a number of Production Credit Associations. It is the creditor, it is a borrower-lender relationship. It has, and its board has fiduciary responsibilities to do whatever is necessary to protect that loan, a multimillion dollar loan to a given association.

How can that board and how can that bank management allow a Production Credit Association to function in an isolated area in a manner that may not be prudent in handling its loan—its relationship with the Federal Intermediate Credit Bank? You got to get back to some of the financial relationships——

Mr. ENGLISH. Let's do that. Do you have any evidence either of those two PCA's in New Mexico were having financial difficulty at all, and isn't it true in the case in which you did evidently approve the competition being set up against one in Eastern Idaho and in that case, was it not a situation where we had a very sound PCA that was very well managed that didn't get in with the go-go management being urged by the districts throughout the Nation? Isn't that true? In every one of those cases they were financially sound, so don't come in and tell us now the reason is because they have shaky loans, we know better than that, Mr. Wilkinson.

Mr. Wilkinson. Mr. Chairman, you have selected, I think, an illustration that causes us to respond. No. 1, is that association which we refer to as Eastern Idaho, in Mr. Craig's area, was one that had to require special assistance only a few short years ago. It did require assistance from the bank. The rest of the associations cooperated with it and provided that association support so that today it is stronger than some of the others.

Mr. English. It paid back every dime, too, didn't it?

Mr. Wilkinson. It paid back every dime. I don't know whether it paid back the cost of money.

Mr. English. The point is it was in financially strong shape when it dared vote against merger. Now the question comes, Mr. Wilkinson, who owns this system? Is it those stockholders like they have got out in Eastern Idaho and New Mexico and in Oklahoma, or is it someone else?

Mr. Wilkinson. Mr. English, it is the 92 percent of the stockholders of the district in Spokane that voted affirmatively to consolidate their resources under one association that owned that district. It is not just the stockholders of Eastern Idaho.

Mr. English. Let's look at that. We will carry that a little further and see what those stockholders were told and maybe why they cast those votes that way. In the disclosure statement for the districtwide PCA in the Omaha District, you required that the mention of the proposals to Congress for financial assistance for the system be followed by the sentence, "At this time it is unclear whether the system will receive any financial assistance from the Federal Government or what form, terms or conditions of such assistance might be. However, many sources, both in Congress and the administration, have indicated it would be necessary for the Farm Credit System to prove that it has fully utilized its own resources before any form of financial assistance might be authorized."

That was the statement that you required them to stick in. I assume that you would require a similar statement in any other disclosure statement which mentions Federal assistance, is that not true?

Mr. Wilkinson. At this time it would be.

Mr. English. Now I want to say in the Wichita District, a press release was issued, dated November 8, which states that the administration and congressional leaders have "challenged the Farm Credit System to consolidate." The question is, do you require one thing up here on the printed statements, but whenever they ship out the press releases and what kind of stuff they send out to the folks in any little letters and messages, that can be something completely untrue? That is not true, is it?

Mr. Wilkinson. Does the press statement say—to consolidate what, Mr. English? Because that would be significant. It should have said to consolidate its financial resources or its capital or loss reserves, or something.

Mr. English. I will quote you. This is the paragraph: "Spokesman for President Reagan, along with House and Senate Agricultural leaders, have challenged the Farm Credit System to consolidate, streamline generally, before approving the requested line of credit from the U.S. Treasury to relieve pressures from loan losses."

Mr. WILKINSON. It did not refer specifically then to the financial area. It is talking about trying to bring more efficiencies into its own structure and to——

Mr. ENGLISH. It says to consolidate.

Mr. WILKINSON. It says consolidate.

Mr. ENGLISH. Is this statement correct? Is that what President Reagan and leaders of the House and Senate Agriculture——

Mr. WILKINSON. No, that is not exactly correct.

Mr. ENGLISH. They lied to them, didn't they? That is what they did, they lied.

Mr. WILKINSON. They didn't lie, they just didn't communicate the total story. The purpose for consolidation in Wichita is to bring its financial resources into one pool.

Mr. ENGLISH. As of yesterday afternoon, the Wichita District had not mailed the disclosure statements and notice of election to Federal Land Bank Association stockholders. The meetings for the vote are to take place, I believe, on November 26, the stockholders will have little or no time to read and understand the issues before them.

Is this reason for you to require the election be set for a different date, to give the stockholders at least a chance to digest the information that is put out?

Mr. WILKINSON. The provision of the law is being required with—I think it is 10 days, isn't it?

Mr. MEDERO. Merger regulations—the merger regulations, the disclosure regulations require that the materials be provided to the stockholders in accordance with the bylaws of the association.

Mr. ENGLISH. The 14th, it hadn't been sent out yet, and given the mail service, I sincerely doubt those people are going to have it in their hands for more than 10 days.

Mr. MEDERO. They have to be in the hands of the stockholders for a certain period of time before the meeting. If they are not in the hands of the stockholders, they cannot conduct the meeting.

Mr. ENGLISH. Who is going to determine that?

Mr. MEDERO. The FCA.

Mr. ENGLISH. Do you have somebody on the ground to determine that?

Mr. MEDERO. I think you can do it by making telephone calls and inquiries.

Mr. ENGLISH. Do you do that systematically?

Mr. MEDERO. When we believe there is a problem, we do, yes.

Mr. ENGLISH. In other words, if I hadn't brought this to your attention, you probably wouldn't have done it, would you?

Mr. MEDERO. The agency goes in as part of the examination process and looks at all of these things. We do not send people out to monitor stockholder meetings, no.

Mr. ENGLISH. I would suggest you had better check this one, because I doubt if they are going to get it in time.

Mr. MEDERO. We will watch it.

Mr. WILKINSON. You bet.

Mr. ENGLISH. We will let Mr. Craig go for a while here.

Mr. CRAIG. Thank you, Mr. Chairman.

Governor, we have gone through consolidation in the 12th district. To some, it has been pleasant, to some it has not been pleasant. After your first vote for consolidation by the stockholders districtwide, it was found in the tabulation of those votes that the Eastern Idaho Production Credit Association, the Blackfoot Federal Land Bank, and I believe the Montana Livestock PCA had voted in opposition to the merger. It was understood, I think, prior to that merger vote that the vote would have to be unanimous before a merger of the scope and of the nature designed could be accomplished. Is that correct?

Mr. WILKINSON. That is as we understand it, yes.

Mr. CRAIG. In late July of 1985, representatives of the 12th District Farm Credit Banks and all PCA's met in Spokane. At the beginning of the meeting statements were made about sanctions that would be imposed upon the Eastern Idaho Production Credit Association, and shortly thereafter, I am told, the Eastern Idaho Production Credit Association representatives were excluded from the meeting and were later informed that the imposed sanctions were discussed in detail during their absence.

After the Eastern Idaho Production Credit Association representatives were called back into the meeting, a resolution was adopted in the form, and I quote, in a form as follows:

> Resolved that the PCA's in the 12th district proceed with the two PCA concept, and further request the Governor of the Farm Credit Association approve a voluntary rescission of the 21 PCA charters and the establishment of one PCA chapter for the entire 12th district. If this procedure is not approved by FCA, PCA boards and management will support a stockholder vote on the two PCA concept. Eastern Idaho Production Association is requested to consider the concept and to join the one-district plan.

That was the resolution that came out of that meeting in the 12th district in Spokane. Apparently this is a statement from representatives of the Eastern Idaho Production Credit Association—apparently FCA did not approve the voluntary rescission approach. And the board of directors of the Federal Intermediate Credit Bank of the 12th district on August 2, 1985, adopted a resolution as follows—did you not approve of the rescission approach?

Mr. WILKINSON. We did not approve.

Mr. CRAIG. That resolution said:

> Now be it resolved, the board of directors of the Federal Intermediate Credit Bank of Spokane approves the agreement of merger as amended by amendment number 1 the agreement of merger, and the merger pursuant thereto, of all of the 12th District Production Credit Associations except Eastern Idaho and Montana Livestock Production Credit Associations into an association to be called the Interstate Production Credit Association, as the continuing association and recommends approval by the Farm Credit Administration.

And you approved that.

Mr. WILKINSON. We approved that being taken to a stockholder vote.

Mr. CRAIG. It went to a stockholder vote, Eastern Idaho and Montana voted to stay out, or voted not to merge.

Mr. WILKINSON. Montana had negotiated——

Mr. CRAIG. A breakaway. They went out on their own, and their argument was to retain their autonomy and their stockholder assets, to find money elsewhere.

Mr. WILKINSON. And that was their alternative.

Mr. Craig. And that was their alternative.

The Blackfoot Federal Land Bank voted to merge, and Eastern Idaho voted to retain its own identity.

Mr. Wilkinson. That is correct, sir.

Mr. Craig. Following that, because of the nature of the new Interstate Production Credit Association, what we have seen happen is an overlay of a new consolidated PCA and Federal Land Bank over the top of the area and the—or the region, the jurisdiction, the authority of the Eastern Idaho Production Credit Association. Is that not correct?

Mr. Wilkinson. There had always been an overlay. That is what they fail to report. That area had always had an association chartering over that very area, and this is not unusual in our area out there and elsewhere.

Mr. Craig. What type of overlay was that?

Mr. Wilkinson. This was a statewide association, a Production Credit Association, it had been granted a charter in its original days to serve the entire——

Mr. Craig. Are you referring—go ahead.

Mr. Wilkinson. I have made my point. A chartering over is not a new thing for Eastern Idaho.

Mr. Craig. But aren't you referring to the Idaho Livestock Production Credit Association?

Mr. Wilkinson. Yes, sir. It had statewide authority.

Mr. Craig. That is right. What type of loans did it make versus the Eastern Idaho PCA?

Mr. Wilkinson. It essentially was organized to provide specialized servicing to livestock producers.

Mr. Craig. Didn't it continue to do that?

Mr. Wilkinson. It did, but it wasn't strictly restricted to that.

Mr. Craig. That was its policy? Usually it made loans of $200,000 or greater for lines of credit or operating lines, is that not correct?

Mr. Wilkinson. Yes.

Mr. Craig. So it did not find itself in direct competition and did not view itself in direct competition with the Eastern Idaho Production Credit Association. Although there was an overlay there, there has been an overlay in organization, in Montana, California, and Utah, and I quote your letter to me of October 27. I accept that as being accurate, but I did not accept that they are identical in the nature of their function. There was a division of authority based on a general consensus that certain types or levels of loans would be made by these Livestock Credit Associations versus the local Production Credit Associations.

Now that is the way it has operated for as long as my memory serves me in Idaho. So that the Idaho Livestock PCA did not find itself in direct competition with the Eastern Idaho Production Credit Association; $200,000 or greater was a rule of thumb that it used.

Mr. Wilkinson. But it was in direct competition, Mr. Craig. Because many of the PCA loans of Eastern Idaho——

Mr. Craig. That is a semantical game. You can say by regulation that it was. But because they were all in the same house, they divide up the pie.

Mr. Wilkinson. No.

Mr. CRAIG. They shared. And that sharing arrangement related to $200,000 or greater, specific to livestock operations, versus less often times the Eastern Idaho Production Credit Association as it relates to agriculture—diversified agricultural loans. I am not going to disagree with what you are saying. There is an overlay. But now there is a different relationship out there.

Mr. WILKINSON. There has long been an overlay, and you are attempting to present there is a difference.

Mr. CRAIG. Well, there is a difference.

Mr. WILKINSON. Let's recognize what was done in that district by those cooperative members now, and not done by the Government. Those cooperative members, those other associations in that meeting that you referred to, determined that the best way to serve their total stockholders was to establish one districtwide PCA. They then through disclosures took that to a stockholder sheet, and it was a highly successful vote as far as stockholders are concerned.

Mr. CRAIG. Because they felt they had no alternative.

Mr. WILKINSON. No, sir. No, sir. Not in that case at all, no, not in that case. They are interested truly in improving the service. You should not connect the consolidation of finance in one association, PCA or land bank in Spokane with the type of services, because I have seen the plan that Spokane has in mind, and they have, I think, a very proper one to service the borrowers.

Now, let me make one more point, if I may. The recommendation on behalf of the association and its stockholders went to the district board. The district board determined that, yes, they believed it proper to have one association for the entire district while still allowing Eastern Idaho to remain autonomous.

Mr. CRAIG. Correct.

Mr. WILKINSON. They made a recommendation to me—they made a recommendation to me and they had it very properly documented, and it was my decision, yes, to grant that.

Then, Mr. Craig, it went to court, didn't it? It went to court. It was taken to court by Eastern Idaho.

Mr. CRAIG. Correct.

Mr. WILKINSON. And it was upheld by the judge, believing that this was a proper move within the authority of that district and this Governor at this time.

Mr. CRAIG. Information from our investigation concludes thus: The Spokane disclosure statement, original and amended, leaves the clear impression that assistance to the district through the Capital Corp. depended strictly upon the complete merger of PCA's and FLBA's. We understand that the Capital Corp. informed a Federal court in Idaho that the assistance did not depend on any specific plan for change. Simply put, it required only that the district improve its operations.

The Omaha disclosure statement leaves the same impression as the Spokane statement. Have you or will you do anything to counter this misimpression?

Mr. EDWARDS. The Spokane financial assistance that was provided required the district to put forward a financial plan acceptable to the rest of the system. The plan the district put forward was merger to a single association.

Mr. CRAIG. Merger was never suggested from the Spokane level?

Mr. Edwards. The merger in Spokane was not required by the system. They were required to put together a financial plan acceptable to the system, and that was merger.

In the Omaha situation, the requirement for financial assistance does require the merger to a single association.

Mr. Craig. OK. I have here from the Farm Credit Bank, Spokane, a letter that came to me and all of the Idaho delegation. It says 15 options were considered, and the present district plan was the best alternative. The alternatives were, and it reads down through them, and I get to alternative 11—"Directorate management considered merger of remaining PCA's into a lesser number of PCA's, a 1, 4, 9 PCA configuration was studied, rejected by FCA as inadequate to deal with the scope of the problem." So, in other words, if merger was the plan, it was all or nothing.

Mr. Edwards. FCA did reject a proposal from the district to merge down to nine PCA's because that plan did not result in viable associations in that district. It simply prolonged the day the entire district would be liquidated.

It was at that point it became clear to the agency and to the rest of the system that Spokane could not survive without financial assistance from the other banks in the system.

Mr. Craig. I think the analogy the chairman has just given, which is "Commit suicide or we will kill you," is a very real fear that Eastern Idaho PCA has. The judge that you referred to, Governor, in his review of that suit made some findings, and one of them, as you related, is correct. He chose not to decide that you had the authority or the authority was there to do what was done.

But at the same time, he did recognize that there was a very real opportunity for damage to that PCA, the Eastern Idaho PCA, from the kind of competition where you have the imposing of a new PCA over the top or side by side or above or below the existing PCA in direct competition.

I say, at least from my opinion and interpretation of how I have known the PCA's to operate out there, the statewide Idaho livestock versus the district areas or the regional area PCA's, the Eastern Idaho PCA, as I see it, is distinctly different, although alike, as you say, and I am not going to take an issue on that. I think it is a long-term gentleman's agreement of what happened.

Mr. Wilkinson. May I respond because we had an attorney at that situation, and I think Mr. Medero would like to clarify something.

Mr. Medero. The issue before the court—there were a couple issues before the court, but the one you are addressing is the issue of chartering over the territory. The court, and in this situation that you are talking about, people can always come to different conclusions as to what the best solution to a problem is. And the association has its position, and they are honest in its position, and the bank has its position and is honest in its position.

The bank took the position in order to create financial viability in the long term in that territory, it was necessary to have a statewide association, and they went to court and they argued over whether or not the bank was right and whether or not the bank had exercised proper judgment.

And the conclusion of the judge from the papers that I have read, the conclusion of the judge was that he believed that the bank had a sound basis for making its decision and that he made—and that he was unwilling to interfere with the making of that decision on the chartering over, that he looked at the competition issue because the issue was specifically raised, and he looked at the regulations which address the issue of competition, and he refused to overrule, and he refused to overturn the action of the bank in approving that over chartering, because he refused to substitute his judgment for the judgment of the district board because he felt that the district board had a basis upon which to come to that conclusion Otherwise, he would have refused to approve that chartering over.

Mr. **English**. Would the gentleman yield? That is simply not true. That is just not true.

Mr. **Medero**. I would disagree that is not true.

Mr. **English**. What the judge said was this, that he was not about to substitute his judgment on this matter for the judgment of the Farm Credit Administration.

Mr. **Medero**. And for the bank.

Mr. **English**. Mr. Wilkinson.

Mr. **Medero**. That is correct.

Mr. **English**. So he did not say he necessarily found this to be a great deal. In fact, he said this may result in the death of this PCA, but I am not injecting myself into this issue because this is a matter that the Farm Credit Administration ought to be dealing with, not the judge.

Mr. **Medero**. The Governor of the Farm Credit Administration is required to either approve or disapprove an action. He does that on the basis of the information that is submitted to the Farm Credit Administration by the district and its analysis of that information.

The Farm Credit Administration made its judgment on the basis of the information that was submitted and came to the conclusion that the information supported the action that was being asked and it was approved.

Mr. **English**. That was an administration decision, fine.

Mr. **Medero**. That is correct. It cannot disapprove it unless it has a basis for disapproving it.

Mr. **English**. The judge ruled he was going to stay out of it. He was saying that is none of my business this is what the Governor ought to be dealing with. Let me get to another issue.

We have here a disclosure statement. This is a thing they give you 10 days to look over and you are supposed to become an expert as a stockholder on. Good luck.

Anyway, we have the one from Spokane. Governor, I think we were talking a little bit about this issue of merger. It says here on page A-2 of this little document that the Nation's farm credit banks have made the consummation of mergers a condition for their proposed financial assistance program pursuant to which a total of approximately $150 million will be available to the Federal Intermediate Bank of Spokane and to the continuing association. Right there it says right there, Governor. This is a condition and you approved this, didn't you?

Mr. **Wilkinson**. Yes.

Mr. English. In effect you are saying this is a condition. You folks either approve this or disapprove this and that is what you are saying.

Mr. Wilkinson. Mr. Edwards has indicated that proposal was that of the recipient, of the recipients of that plan right there.

Mr. English. The required merger. All you folks out there, if you want any help for your association, if you want your stock worth anything, if you don't want to lose your entire association, we are not going to vote for this.

Mr. Wilkinson. That was the district's own vote had by the stockholders.

Mr. English. It says the Nation's farm credit banks have made the consummation of mergers a condition of their proposed financial assistance program, and you are the one that approved that. You gave your blessing to it. You put your sign of approval. This is right, what you said?

Mr. Edwards. I think you maybe are arguing semantics. A part of the proposal was the Spokane system put forward a plan acceptable to the system. Spokane did that. That was the merger.

Mr. English. We are talking about here though the words, this is what we tell the stockholders. This is what it is all about. This is how you got that 90-percent vote or whatever it was out there.

You would go out and say, folks, there is no help unless you are willing to vote for the merger, unless you are willing to commit suicide there is no help.

Mr. Edwards. The requirement of the system was Spokane implement its plan which was to merge.

Mr. English. That isn't what you put in here. This isn't the blessing you put on this. The Governor approved this as being fact.

Mr. Wilkinson. I am having difficulty, Mr. Chairman, because I thought you and I were to go a while ago and that is to allow the stockholders to speak for their system as they have done here, grassroots is really speaking as to what they wish to have done.

Mr. English. The difference is what information you provided those stockholders, Mr. Wilkinson. We are talking about here, coercion, misinformation, people being lied to. That is what we are talking about.

Mr. Wilkinson. You cannot call that being lied to. That is a very adequate, proper disclosure statement that would get by SEC, I think.

Mr. English. The Nation's farm credit banks have made the consummation of mergers a condition for their proposed financial assistance program. Is that true? Is that fact?

Mr. Wilkinson. Mergers for the purpose of having total use of their resources, their finances.

Mr. English. The consummation of mergers is a condition to their proposed financial assistance program.

Mr. Wilkinson. We are saying the same thing. That is exactly what they have said is merging their capital resources, Mr. English.

Mr. English. We are not talking about capital resources. We have already determined you have the authority to do that. They didn't have to do any merging for you to take care of that. You could trade those capital resources off anywhere you wanted to in the Nation.

Mr. Wilkinson. I don't think you want the Government to do it.

Mr. English. Don't tell me what I want the Government to do and what I don't want the Government to do. I can determine that. What I am saying is this merger did not have to take place nor does any of these mergers around the country have to take place. We don't have to have the stockholders give away their rights and ownership to this system in order to meet that requirement.

Mr. Wilkinson. They have not given away their rights, Mr. English. They own and they control that production credit association. They have much to say with what will take place at their service centers with their advisory boards. They have just as much control over their total production credit association as they have had before.

Mr. English. Let us pick up on the advisory boards. What kind of power do those advisory boards have?

Mr. Wilkinson. To represent the interest——

Mr. English. What kind of voting rights do they have? Can they say no on anything, or do they advise, say, we recommend this or that?

Mr. Wilkinson. They will do exactly what the borrower wants and that is what is the best service we can provide.

Mr. English. I am asking you what authority does that board have? Do they have control and authority over those boards above them?

Mr. Wilkinson. They elect their directors.

Mr. English. How many of the directors?

Mr. Wilkinson. It differs from one part of the country to another. I don't know what the number is in this particular situation.

Mr. English. They elect all those directors or part of them?

Mr. Wilkinson. They elect all those directors; yes.

Mr. English. Every State and every stockholder will get a chance to vote on every one of those directors?

Mr. Wilkinson. They do. They do it through their representative type of process.

Mr. English. Representative. That means that stockholder will not have an opportunity to vote on each of those directors himself.

Mr. Wilkinson. It is done throughout the regional process.

Mr. English. You can vote for a representative who will have an opportunity to vote for a representative who may have a chance to vote.

Mr. Wilkinson. No. No.

Mr. Medero. Mr. English, those plans were put together and we had the opportunity to review them. What they basically did was they wanted to be assured that if they put together an association which was a statewide association or a districtwide association that borrowers in particular locations within the State would be continued to be represented on that board.

In other words, if borrowers from a particular district would have geographic representation. What they wanted to do is they wanted to elect advisory directors who in turn would elect the PCA directors. We rejected that. We said that if you want to do this you have to do it just the way it is done in the law right now.

The grassroots borrowers, each individual borrower shall have the right to elect his or her representative to that PCA board. So those PCA directors that sit on that PCA board are elected individually by the stockholders.

The stockholder does not get a chance to vote on every director on the PCA board. The stockholder gets to vote on the candidates and there is at least two candidates in each geographic district.

Mr. **English**. Let's stop right there. How many members are on the board?

Mr. **Medero**. It varies from district to district.

Mr. **English**. In Wichita District, how many members on the board?

Mr. **Medero**. Seven. It may be seven.

Mr. **English**. Does that mean the stockholders in Wichita County, OK, are going to get to vote on all seven of those board members?

Mr. **Medero**. No.

Mr. **English**. That is the point I am getting at.

Mr. **Medero**. That is something that was requested by the associations themselves.

Mr. **English**. I don't care who requested it. I am simply saying he will not have control over those board members. He may have two that he can vote for. They are voting statewide but he is not going to have control over all seven.

Mr. **Medero**. That is correct. That was a recommendation that was approved by the Farm Credit Administration that a remedy was put to FCA by the boards of the associations. The associations wanted it that way.

Mr. **English**. By the districts?

Mr. **Wilkinson**. By the boards.

Mr. **English**. The boards of the districts?

Mr. **Medero**. No. No. The association, PCA Association Board—you had a number of situations where PCA's were so small that if they were amalgamated within the large association they wouldn't have any effect on voting any people on that board of directors because they were so small that their vote would be completely wiped out.

So what they did was they said in order to assure that we have the ability to influence this board by electing at least one or more, maybe two association directors, we insist on having the right to vote for two individuals and the exclusive right to vote for those two individuals and we approved that because we believe that assured that that association would not become disenfranchised in the merger into the larger association.

Mr. **English**. Let me put it this way, Mr. Medero. Let's cut around all the smoke on this deal. When it comes right down to it, there is no way in the world that the local stockholder is going to have as much control over his local association or impact on his local bank as he does today. That is the bottom line. You disagree with that?

Mr. **Medero**. I do.

Mr. **English**. In what way?

Mr. **Medero**. Because I think the larger associations, they have been demonstrated that larger——

Mr. English. I am talking about an individual stockholder on his local association.

Mr. Medero. I think the geographic representative that you have in these associations now assure a much more direct voice on those association boards by those individual borrowers because they have their person on the board who comes from their particular geographic organization.

Mr. English. State.

Mr. Medero. State, whatever way it is organized.

Mr. English. That gets to be a pretty big size when you are talking about a State, two people from a State.

Mr. Medero. That is true. The associations have had the freedom to——

Mr. English. Let's not go back and say who it is done by. The question I am asking you is,—let's get at it a different way. Would there be the same number of members of boards of all levels as there are today?

Mr. Medero. There are approximately 5,000 directors within the farm credit system today.

Mr. English. Will there be as many after all this merger is through?

Mr. Medero. There will not.

Mr. English. Then there is no way that individual stockholder can have as much representation as he has today.

Mr. Medero. I think the individual stockholder will have more direct representation at the association and the districtwide level than they have today.

Mr. English. You have a board member who is representing 500 people. It isn't the same as having a board member that is representing 3 million.

Mr. Medero. Under the existing procedures today a stockholder, not a director, elects a local director and a local director is part of a larger organization. Under the system today the grassroots stockholder in a county has the ability to have his vote counted at a statewide and districtwide basis rather than just on a local basis which then becomes translated into a bigger vote and becomes much more diluted.

I think you can make an argument that the stockholder's vote at the local level today has a much greater direct impact on the overall association in the district than it does at the local level today.

Mr. English. You can make the argument. It doesn't make it true. When you come down to it I think most people would rather be able to vote in smaller numbers for a representative.

The question is then why don't we do away with the House of Representatives? You have two Senators from every State and that is basically what you are talking about doing, doing away with that type of representation.

Mr. Medero. If you talk about the interest of the stockholder I think my position I would defend. If you talk about the interest of the local PCA director and whether or not he likes it or not, that is a different question.

But I thought you were talking about the stockholder.

Mr. English. I can't say anything about the director. What I was talking about was the individual stockholder having control of his association. As it stands today that stockholder elects his local boards and supposedly since this is a cooperative, supposedly then those directors, acting with management, the local association, then determines the fate of their association.

That is the way it has been in the past. That isn't the way it is going to be in the future.

Mr. MEDERO. I think that the association stockholder vote now has a much greater impact on the association than it did before because it elects directly an association stockholder or director that is a director on a statewide or a districtwise basis.

His vote, the stockholder vote is not filtered through two levels in order to have an impact on the district. It has a more direct impact on the district.

Mr. ENGLISH. That is the key though. The question is where is the power going to be? Is the power going to be in that local association or is it going to be up in the district?

Mr. MEDERO. It is going to be in the stockholder.

Mr. ENGLISH. It is going to be in the district and that is where the merger takes us and that is where we have our differences.

Mr. MEDERO. I think it brings the power back down to the stockholder.

Mr. ENGLISH. Mr. Craig.

Mr. CRAIG. Let's pursue for just a moment, a matter of clarification because I think, Governor, when you and the chairman were discussing a minute ago a statement out of this document you said, well, it is a matter of semantics. I refer to the statement again that the nation's farm credit loans have made them a condition of their financial program.

I have before me a statement from the farm credit banks that was presented to a briefing the other day here which is entitled "Farm Credit System Finance Assistance," and outlines a program that they hope this Congress will approve for the assistance to the Farm Credit Administration.

Is it not possible to assume that that statement means this—If we are dealing with semantics, does that local stockholder out there who knows a presentation for a $6 billion line of credit, limited to a maximum of $2 billion draw a year, and the warehousing concept through the system's capital cooperation, all that—that is called a financial assistance program, right?

Mr. WILKINSON. Yes.

Mr. CRAIG. That is what we are calling it now. That is what you have come to the Hill or I should say the farm credit system has come to the Hill to ask for and over here we talk about a proposed financial assistance program.

Mr. WILKINSON. In the Spokane disclosure statement, Mr. Craig, is that what you are referring to?

Mr. CRAIG. Yes.

Mr. WILKINSON. That was developed long before.

Mr. CRAIG. I recognize that. But we are still merging under that concept.

Mr. WILKINSON. At that time the system was saying to use system resources you must do this.

Mr. CRAIG. I accept that.

Mr. Wilkinson. Today as was pointed out by the chairman, there are many, including in the administration, that before there will ever been any cent of tax dollar used, any kind of financial assisance the system is going to have to use all or as much as possible of its resources and that yellow sheet I presume is the result of the system reporting to you of Congress how it intends to comply with what it reads to be a major requirement which will be laid upon it before it is going to get any kind of assistance. That is to consolidate its capital, to consolidate its losses, to consolidate its bad loans.

Mr. Craig. With a net savings to the system of how much money to be arrived at through consolidation?

Mr. Edwards. Mr. Craig, we did a study of financial projections on all PCA's in the country in the spring of 1985, this year. That study indicated that given what we believe the economic environment would be that to bring PCA's back to break even, to stop the deterioration in their financial condition would require an investment of about $1.8 billion in capital.

Mr. Craig. Infusion of capital.

Mr. Edwards. The centralization of capital at the district level only would reduce that requirement by some $600 million now, that $600 million that farmers or taxpayers have got to put up. The credit banks by themselves had available to them to invest in PCA's about $600 million.

So if the structure stays precisely the same as it was the beginning of this year $1.2 billion of that investment has got to come from other places, the land bank system PCA's.

Mr. Craig. That is, assuming the Governor has the authority to move that money around as the law says he does.

Mr. Edwards. You have got local control on one side and wanting to preserve that and you have got the governor jerking the capital around on the other side from Washington without any by-your-leave by the stockholders at all, and that seems to me to be inconsistent philosophically.

Mr. Craig. We are talking about current law that members of the association who are under that law recognize as part of the authority, current authority.

Mr. Edwards. The Governor would not necessarily use that structure.

Mr. Craig. I have decided our Governor is unlike most Federal bureaucrats. He is tremendously fair and just and judicial and never ever does what most Federal bureaucrats do: push, shove, encourage, suggest and then sometimes use their authority.

How much money will be saved, not through the movement of dollars, but through the efficiency of consolidation? I think that there was a figure out there sometime ago that if you consolidate the entire system, one-stop banking, all of that, modernize it, streamline it, bring it into the 21st century, you are going to save some money.

Mr. Edwards. Each of the banks that have proposed or working on mergers have made estimates of what they are going to save. I don't have the figure.

Mr. Craig. I accept the fact it is going to be estimates. It is $17 million wide approximately, isn't it?

Mr. **Edwards**. I can get that. I don't know what it is.

Mr. **English**. Will the gentleman yield quickly?

Mr. **Craig**. Yes.

Mr. **English**. Again, I want to refer to the Farm Credit Administration regulation which urges districts to develop plans to the effect of efficient operations including joint offices for associations.

This is another one of those they had authority to do all along, is it not, Mr. Wilkinson? Can you have joint offices, increase your efficiency?

Mr. **Wilkinson**. No, not the way you are referring to it.

Mr. **English**. Well, we have got the regulation here. What is the date on this regulation? The current regulation. This is section 616.020, overall policy. It goes in there that district policy should minimize the possibility of injurious competition among institutions in the system and maximize coordination between them and provide services, other financially related services and technical services programs. It goes down and says the joint and adjacent housing for association should be used whenever possible. That is something you all have had the regulation out for some time.

Mr. **Wilkinson**. I think the key word is one you used earlier. It is either urge or encourage, Mr. Chairman.

Mr. **English**. That is another one of those things you didn't want to put the heat on them. Didn't want to mess around with the local control. Is that it?

Mr. **Wilkinson**. You as well as anyone in this room will know what that particular issue speaks to for you have witnessed the land bank associations for so many years and you have witnessed the production credit associations for so many years, Mr. Chairman, going their separate ways, the land bank one way and the production credit associations going another way.

Mr. **English**. It doesn't mean you can't put them in the same building if it saves money, does it?

Mr. **Wilkinson**. That is exactly what we have encouraged in that recommendation but it does not say, Mr. Chairman, we can mandate that.

Mr. **English**. Mr. Wilkinson, how can you say then the merger would save this money? The merger doesn't do it. They have had the authority to do it all along. What brings it about is doing itself. They don't need any new authority to do that. They don't need the stockholders saying you are going to do that. That is part of the regulation right now.

Mr. **Wilkinson**. That regulation has nothing to do with the consolidation of the capital.

Mr. **English**. You have had authority to do that all along. We have been over that time and time again today. You have already got that authority. You can do that under law. That is evidenced by the fact you issued a regulation in September on that. You had the authority before 1981, maybe before that. I don't know.

Mr. **Medero**. Mr. English, let me if I may, try to answer your quesiton. The same quesiton that Mr. Craig raised. I wrote that regulation and I urged the Governor to adopt that regulation, so perhaps I can speak to the issue.

Mr. English. Were you referring to the law when you wrote the regulation? Did you figure you would tie it in somewhere on the law that gives you that authority?

Mr. Medero. The agency had the authority, which I think you would support.

Mr. English. Don't take anything for granted what I would or would not support. I want to hear it first before I sign on to it.

Mr. Medero. Let me tell you what that policy was. The policy was to attempt to let the institutions of the system, the associations, and the banks solve their financial problems through financial assistance that they agreed to put together for themselves.

In two instances in Spokane and in Omaha the system got to go with its own people and put together a proposal in the cooperative spirit to help out the Spokane District and the Omaha District.

That is a very different process, as you can imagine with cooperatives trying to get those kind of decisions made and those kinds of agreements ironed out. It is very complicated.

It looked as though those agreements would not be successful and the Governor was fearful in the events the system was not able to do for itself what it needed to do, he needed to have the backup power in order to bring that issue to the forefront.

That was why that regulation was put together. The regulation is premised on one basic principal and that is that agency should have the authority—the regulation was based on a very sound principal we think and that is that system as a cooperative system should have the opportunity, the full opportunity to deal with its own problems and come to its own solutions about how to solve its financial problems before the Government interjects its judgment and tells stockholders how to do something, and that the Government ought to stand by and ought to say if the stockholders are unable to resolve the problems after they have had their full opportunity, then the Government needs to come in and take care of the problem in order to avoid a collapse.

Now that regulation was put into place for that reason. The reason that the Governor has not exercised his authority under that regulation is because he has been giving the system the opportunity to deal with its own problems.

The Idaho Production Credit Association, we hear that the association PCA's would have supported the Governor going in and taking their capital and moving it around. Would be of the very issues in the lawsuit up in Idaho by the Idaho Production Credit Association, in fact, the principle issue in the lawsuit was their direct opposition to that regulation. They attempted to overthrow that regulation. They attempted to get the judge to issue an injunction against that regulation.

They were against that regulation right from the beginning. We opposed that and we were fortunately successful in convincing the judge we did have the authority to enact the regulation.

But the Governor does not use that regulation and the regulation was adopted with the principle basic cooperative principal that he can use that power if the associations and the banks are unable to solve their own problem in the cooperative spirit.

He has a responsibility he feels to do that. But that regulation was not intended to go in and to substitute in the first instance the authority and the judgment of the Government for the local stockholders and the bank stockholders at the local level. That was the purpose of that regulation. I think you would support that concept.

Mr. Craig. Is the regulation you are talking to the one that appeared in the Federal Register of September 11 of 1985?

Mr. Medero. I believe that is correct. It is the transfer of funds regulation.

Mr. Craig. Let me read that. 611.1145 that sets forth the standard and procedures under which the FCA may direct a transfer of funds and equities between Farm Credit System institutions. It goes on. The key point I think the salient point down here is the joint and several liability of the banks on systemwide bonds that makes the system's financial condition only as strong as the sum of all of its component parts.

Mr. Medero. That is correct.

Mr. Craig. I interpret that to mean that you are saying that it is a whole system. Based on that you have the ability to transfer moneys and move them around to make sure the system stays whole.

Mr. Medero. That is correct. Let me bring that back to your specific instance in your district. The Spokane banks were about to default on their bonds.

Mr. Craig. I understand that.

Mr. Medero. That would have sent a traumatic message to the marketplace and would have affected all of the banks of the system. The rest of the banks in the system had the resources to prevent that default form happening. And they went into Spokane and they said, we will use our resources voluntarily to prevent this bond default.

Mr. Craig. If you merge.

Mr. Medero. No. We will do it but we aren't going to do it until you at the local level have done everything that you can to use your own resources and we want you to come up with a plan to use those resources so that we don't have to put money in there unnecessarily because we have our own problems back home.

Mr. Craig. Eastern Idaho objected to that.

Mr. Medero. What happened to that was the association—the rest of the banks said to the district, come up with a plan and the district came up with a plan and the plan called for the merger of all those associations.

Eastern Idaho objected to that. The district bank said if you object to that we will create two associations in stead of one because we cannot force you to merge. They created a new association. They left the Idaho Production Credit Association in place. They left its charter in place. They left its territory in place, but they said, because we need a statewide association, and we need to have the financial resources to be able to get the rest of the system to provide the resources that we need to prevent a bond default, we are going to charter over that territory.

And that chartering over that territory was on the basis of a recommendation by the district board that that chartering over was necessary in order to serve the borrowers in the district and to assure the continued financial viability of that large association which was put together in order to prevent that bond default.

Mr. **Craig.** OK. Now here is what we believe or at least some of us do will happen as a result of that. An institution that had $21 million of assets that is now very fearful that it will be devoid as a result of it believes that competition will hurt its association for a number of reasons. The first reason is approximately 60 percent of their PCA borrowers unless borrowing long-term loans from the Federal land bank. When Interstate PCA sends out information to these 60 percent they are also soliciting the 60 percent of traditional Eastern Idaho PCA borrowers.

Second, Interstate PCA is advertising for borrowers on the radio and newspaper. These were played in that court proceeding which helped the judge make at least some kind of determination that they could be substantially hurt by their overlay.

Third, all of these factors have lead to a tremendous amount of confusion for a majority of the average borrowers with many believing that the Eastern Idaho Production Credit Association and the Interstate PCA are one in the same and we know they are not.

Fourth, the Eastern Idaho PCA will be supervised by the Spokane directors, the very directors who don't really, didn't really want them to exist, wanted them to merge.

Spokane directors will have access to all Eastern Idaho PCA borrowers and the Eastern Idaho PCA feels that this will give the Interstate PCA a prime opportunity to solicit their blue chip borrowers.

You know, it is the old fear that some of us have had for a long time that when you gave banks the authority to sell insurance that just before you sign on the dotted line for your operating line for the year, your friendly banker would say, and now what about your insurance portfolio?

So when that PCA borrower who has to deal with Federal Land Banks some 60 percent of the Eastern Idaho Production Credit Associations borrowers go into that new merged PCA Federal Land Bank, the Interstate system, to deal with their Federal Land Bank loan and they will say, why don't we just work out your line of credit for the year.

Wouldn't that be much simpler? Isn't that going to be much more convenient if you do business here at this one place instead of here and here? Yes, that seems like a reasonable approach. That is what is happening. That is what will continue to happen in a $21 million institution which will fail or could fail. I won't say will, but could. Because the district decided that they would not allow it to retain its entity unless it was overlaid.

Mr. **Medero.** The rest of the associations made that condition to the merger.

Mr. **English.** Why don't we have the Governor respond? It is his judgment we are talking about here, not the law.

Mr. **Wilkinson.** Because the Governor and the Farm Credit Association have to view any actions within a district on a districtwide basis and what it reads to be the interest of the majority of the stockholders and in this case that had to be our decision because the recommendation had come from the rest of the production credit associations. It was properly handled as a stockholder vote and they spoke with great majority and that was what dictated our action.

Mr. CRAIG. I guess I won't take issue with you on that, Governor. I guess I would take issue with the concern that you have a strong entity sitting here who has a long track record of strength and stability and good decisionmaking. They were financially whole, one of the strongest links in this unseverable system that your regulations speak to and you said no, they can't operate now a part of, but somewhat autonomous to what we all agree ought to happen.

So we will overlay and run the risk of severing them by weakening their financial situation in a direct competitive situation or arrangement that heretofore has never really existed, not in the law—because it does exist.

I accept that. But in the concept of how we manage and share. Because I have done business with the Idaho Livestock PCA and I know they are different than the local PCA in Weiser. They don't directly compete although they have the right to.

But this new arrangement offers direct competition and it is interesting that this board in Spokane that is ultimately supervising its new child and is certainly going to want to make sure that that new child exists over a rebel child that they don't want in the system but the law allows them to exist.

That is really the basis for the problem. As we move into this merger and other areas, that is the kind of thing I think creates tremendous disharmony when I don't understand why they could not have been allowed to exist because of their strength without the overlapping. That is why we appealed to you in September, and although you gave a thorough explanation, that concern was basically not adhered to.

Mr. WILKINSON. I do hear you saying, Mr. Craig, we did honor the retention of the separate autonomy of that Eastern Idaho PCA and they were entitled to that. I think you have also indicated that we have followed all of the authoritites that we had in proceeding throughout the process and also in the chartering over of that new association.

It is a matter of judgment as to whether that was in the best interest of the board of directors who have some very personal, specific concerns regarding Eastern Idaho PCA.

Mr. CRAIG. Yes; they do. It became a very personal, heated issue because there was a rebel group who wouldn't go along for fear of damaging their stockholders. They were acting, I believe, in the protection of their stockholders and the value of that stock.

Mr. WILKINSON. I sincerely hope they were acting in the best interests of their stockholders. That is their responsibility.

Mr. CRAIG. A system has been created which may ultimately prove them wrong because the system that overlays them is so much stronger and views them as the rebel child and has the right to make decisions about their management.

Mr. WILKINSON. The final decision on that, Mr. Craig, has to be which is able to provide the best service to the borrowers and I see nothing wrong with these borrowers being able to have some choice right in that area.

Mr. CRAIG. But they had the choice. You told me they had the choice. They had the Idaho Livestock Production Credit Association and the Eastern Idaho Production Association. They already had a choice. Now they have got a different kind of choice with a whole new set of game plans and an entirely different environment. It gives me great concern that these actions are going to destroy a system that has remained institutionally very strong, in fact, helped buoy the system up.

Mr. **Wilkinson**. I have indicated to you my concern is how this system can best do its job under the act of Congress and there is nothing in this act that says there has to be number of directors or anything of that nature.

The mandate is to provide sound and adequate and constructive credit and financing this new mechanism, because it is able to use as most effectively as possible its finances, its experts, its service centers, if they can provide better credit to and services to their borrowers then so be it.

Mr. **Craig**. Mr. Chairman, one last question.

When we were talking some time ago now about who has the authority and it was determined that you have the authority to approve of salaries for the presidents of the district banks, I assumed that if you have the authority to approve you also have the authority to disapprove.

Mr. **Wilkinson**. Yes, sir; the president of the banks only, yes.

Mr. **Craig**. I believe and would you correct me on this? My memory is vague on it. It happened several years ago when we were discussing the problems of the 12th district when it became apparent that the Southern Idaho PCA was in deep trouble, that PCA's in Oregon and Washington were in deep trouble because of acquisition there had been concern over that for some time, I asked you how do you get rid of that bank president? How do you change the system? And you said, I have that authority, not by saying that he must go but by saying he ain't going to get paid.

Mr. **Wilkinson**. I hope I couched that answer in that particular frame of reference.

Mr. **Craig**. You did. I said, what is your authority and you said, "I have limited authority."

Mr. **Wilkinson**. Very limited authority.

Mr. **Craig**. I said, but you do have authority, and you said, yes. You said that authority lies in the ability to approve or disapprove of his salary.

Mr. **Wilkinson**. Yes; but remember we have always held accountable the farmer elected board of directors.

Mr. **Craig**. Then how did he get removed?

Mr. **Wilkinson**. Because the board removed him, Mr. Craig.

Mr. **Craig**. You did not suggest it?

Mr. **Wilkinson**. Yes, yes, yes, many times. But far too late did the board finally decide to take action.

Mr. **Craig**. What would have happened if you said I disapprove his salary?

Mr. **Wilkinson**. It would have been truly in my estimation violating the principle of holding a board accountable and this is a cooperative farmer board. For so many years I have tried to strengthen the system and its cooperative process.

Mr. **Craig**. In 1978 and 1979 I think Mr. Edwards testified you began to recognize the differences is with this new authority that had been granted by the Congress.

Mr. **English**. 1971.

Mr. Craig. In the 1971 act.

Mr. Wilkinson. Yes, 1971.

Mr. Craig. You began to recognize some problems there. At that time did you tie those problems with the management of the bank?

Mr. Wilkinson. Yes, sir.

Mr. Craig. With the president of the bank?

Mr. Wilkinson. Yes, sir.

Mr. Craig. Was it the new president?

Mr. Wilkinson. The president had been there for some time.

Mr. Craig. We had a new one in there.

Mr. Wilkinson. He was not new. He had been there.

Mr. Edwards. The new president you are referring to didn't come in until 1983.

Mr. Craig. OK. All right. We are talking about the same person. My memory did not serve me well there.

Mr. Wilkinson. Yes, we are.

Mr. Craig. Yet you did not get a response.

Mr. Wilkinson. We did not.

Mr. Craig. Would you have gotten a response if you had said, I disallow the salary of your president?

Mr. Wilkinson. I think it probably would have shocked that board.

Mr. Craig. Didn't they need to be shocked if they brought the system down?

Mr. Wilkinson. They did but I chose not to use that salary because I did not feel that was its intended purpose.

Mr. Craig. I see. You had a hammer but you failed to use it.

Mr. Wilkinson. I don't know whether I failed or made a judgment decision on that.

Mr. Craig. OK. Thank you very much, Mr. Chairman.

I am going to have to go and let me thank all three of you for putting up with me as long as you have.

Mr. Wilkinson. It has been very constructive, sir.

Mr. Craig. I hope it has. There is no doubt the farm credit system of this country is in real question at this time and is in real trouble.

When we look at the magnitude of the system and the magnitude or the impact of the problem on our borrowers across my State and across this country, there is no doubt that we have to come to a solution with relative speed to get on into the next season. It is important, I think, that we see some modernization of the system, but I think as the chairman agrees, we still must maintain the basic concept.

I hope we are not losing that. I hope if we have associations that chose not to go along that we will learn to work to cooperate with them to make sure that we adhere to the regulation or the principle of the regulations. The sum is as important as the whole.

I guess I am only quoting from your words. Let's make sure we remember them. Than you, all three of you very much.

Mr. Wilkinson. Thank you, Mr. Craig.

Mr. English. Thank you, Mr. Craig.

Mr. Wilkinson, you furnished this subcommittee with copies of disclosure statements for the districtwide mergers proposed since the first of the year. The copies of those from the Wichita District were the preliminary copies submitted for your approval, and they are filled with changes that you are indicating.

It looks to me like your staff did a pretty thorough job including notations that various stentences are, and I quote, threats, unquote. The statement from the St. Louis district that you furnished is a copy that was actually sent to the stockholders.

Your staff has been efficient there, too. It is marked with places where the districts did not make the changes that you required. What do you plan to do with this? Are you going to vacate the St. Louis election as a result of the fact they did not do what you required in making these adjustments and changes in the statements you put in?

Aren't you the one that has this responsibility, Mr. Wilkinson?

Mr. **Wilkinson**. Yes, but you are referring to a draft disclosure statement, are you not, Mr. English?

Mr. **English**. No, sir, we are talking about the one that was finally sent out. We saw the notations. It says in here, as mailed to stockholders, September 30, 1985.

Mr. **Wilkinson**. Since those were not my comments in the margins I am not in a position to respond. They were either attorneys or they were supervisory officers. May Mr. Edwards respond?

Mr. **English**. All right. Mr. Edwards.

Mr. **Edwards**. Mr. English, I have not reviewed the specific draft comments. Where we feel a change in he document is required we require it to be made and if it is not made then the document doesn't go to stockholders.

Mr. **English**. Well, it went.

Mr. **Edwards**. If we required them to make changes that they did not make then the merger won't be approved. The fact there is a margin note——

Mr. **English**. The merger will not be approved then under those conditions.

Mr. **Edwards**. I didn't say that. I said if we required them to make changes they did not make. The——

Mr. **English**. We will go over and find out specifics. You gave me the answer I wanted, namely the merger would not be approved if they did not carry out the requirements.

Mr. Wilkinson, the Wichita proposal lists the beginning board members of the proposed merged associations, the people who would be in charge I guess if the merger is approved. The rules for the merger require this as I understand it.

The Wichita District Bank has announced the chief executive officer of the new association and we understand he is out on the road right now selling the merger.

How can you justify a situation where a proposed board of directors hires a chief executive officer of an association that does not exist? Who is he getting paid by? How is he getting paid and where does he get his expense money? He is paid as he goes out and tries to sell the stockholders on the idea of giving him a job?

Mr. **Wilkinson**. I think the individual you are speaking of is and has been one of the bank officials. So he has been and is being paid by the bank, the joint banks of Wichita. No. 2, I do know because I was with that board only a couple or three weeks ago that that board is mandating that there be as much information as possible available to the stockholders, not just through disclosures, not through newspapers, but that individual and others are holding meetings throughout the Wichita District to help them understand all of this issue that we have been talking about all morning.

Mr. **English**. We have had a little of that. For instance, all this fine information you are talking about him being out chasing around putting out. In a meeting of the stockholders of the Woodward PCA, Woodward, OK, the district spokesman there left the impression that the consolidation of PCA's has already occurred and that the shareholders are simply being asked whether they wanted their PCA to join it.

The same fellow, the one that you talked about, Mr. Harris.

Mr. **Wilkinson**. That is right. It is Jerold Harris.

Mr. **English**. He is putting this kind of information out.

Mr. **Wilkinson**. I am not going to speak for Mr. Harris. I don't read the newspaper clippings from all of those communities.

Mr. **English**. Maybe you ought to do that. You would find out what those folks are saying whether it is true or not.

Mr. **Wilkinson**. I have plenty of other sources including my own staff as to what they are saying and doing.

Mr. **English**. Did they report to you on this that old Jerold is out there putting out misinformation?

Mr. **Wilkinson**. No. If I heard that district board right they have the same concern you have, Mr. Chairman. They were indicating that they, the board, and the advisory groups or whatever term they were using as they worked with the PCA people and the land bank people in advisory capacity, had recommended that this total program be considered by the district and that that was what they were evidencing at this point but it would not in any way be final until there be that stockholder vote. They had no other authority to indicate otherwise.

Mr. **English**. Well, then, what happens when they don't? That means that the stockholders are out there are getting a lot of misinformation on which to vote doesn't it? When they don't tell them the facts, tell them the truth?

Mr. **Wilkinson**. When they go out they should be telling them the facts so the stockholders can use their best judgment.

Mr. **English**. They are not in this case. Says, "Stockholders asked why PCA and Federal Land Bank Associations being asked to approve consolidation when it had already taken place. Harris explained that the association members voting on November 26 and December 3 on whether or not to join the consolidation."

Mr. **Wilkinson**. That is the stockholder vote that will make the ultimate determination.

Mr. **English**. You know he is lying out there, it has already taken place. The question is whether you join the consolidation.

Mr. **Wilkinson**. Remember that has to be by far a majority vote.

Mr. **English**. The point is he is giving them misinformation.

Mr. **Wilkinson**. No. No. He is speaking, if I understand Mr. Harris correctly, and if I understand the message from his own board and his managment team——

Mr. **English**. This wasn't a board, this was Mr. Harris out there in front of about a hundred anxious farmers and stockholders.

Mr. Wilkinson. He is reflecting the decision of the association's boards of directors as they have been in many meetings during these past months in which they have made a decision to recommend to the stockholders and that this decision was then taken to the district board with this plan and that the stockholders would have to approve the recommendation of those PCA boards of directors as well as the district board.

Mr. English. I see.

Mr. Wilkinson. If you can read all of that between the lines, I hope so.

Mr. English. It is the board then, it is their fault. The local board is the one out there——

Mr. Wilkinson. The local boards have been together for several meetings and they have approved the concept. They have approved the plan to be taken to stockholder vote.

Mr. English. Yes. I remember I am familiar with how they have been out in the local boards saying, "If we don't get this done, your stock isn't going to be worth anything. You better approve it or you are gong to be out on your own." Is that a fact? Is that right? Is their stock going to be any good if they disapprove this merger? Are the—I want you to answer, Mr. Wilkinson. Are they going to lose their stock if they don't approve the merger?

Mr. Wilkinson. Some of them very well may lose their stock if there is no method of keeping a production credit association solvent.

Mr. English. What is it that the merger does? We have been over this ground. Again I will go over it again with you, why is it that a local associaton, why would they be insolvent and the whole system not be solvent?

Mr. Wilkinson. I had hoped we had covered that. I am glad you are coming back to it.

Mr. English. I am glad to. Because you won't go out and take money from one place and pool it with another like you have the authority to do. You won't utilize your authority. That is what it is all about.

Mr. Wilkinson. Mr. Craig would have evidenced we made an effort much—many months ago to take this one by one and try to keep it without having to do all of this process. So we liquidated. We actually had voluntary liquidations and then involuntary liquidations of some production credit associations because they became insolvent.

The next month then, because there were too many of those developing, and I would go on record, Mr. English, by indicating right now there are some 35 to 40 production credit associations that are on the verge of insolvency unless their banks are going to be able to continue to put funds into them and their banks are dependent upon——

Mr. English. That simply depends upon whether the Governor is going to act, who the Governor is going to utilize this authority, whether the Governor has the nerve to do the job. That is the question we get down to, Mr. Wilkinson.

Mr. Wilkinson. Not at all. Not at all.

Mr. English. You are trying to push this off on the association by saying, "I don't want this decision, I don't want to act, I don't want to carry out my responsibilities so we will go out here and we will sacrifice the cooperative system, the farm credit system as it has been in the past. We are going to sacrifice your local control so I don't have to act."

Mr. **Wilkinson**. Mr. English, if I have taken any criticism in the last several months and I have taken plenty, it has been on just the opposite point, and that is, that the local people do not have control over their system, and I am giving them every opportunity to do what is proper in the Wichita District, in the Omaha District and elsewhere short of the Government through this regulatory agency having to step in.

Mr. **English**. It is not the Government they are worried about. It is their own employees. That is the ones that you are turning loose on them.

Mr. **Wilkinson**. They hired those employees and they work—those employees work for those people.

Mr. **English**. Not any more they won't, not after this.

Mr. **Wilkinson**. This is, as you and I so well know, this is not a government operation. This is a private cooperative and you want to impose government over it to that extent.

Mr. **English**. Then there is no reason to have you around. There is no reason to have Farm Credit Administration. There is no reason to have a Governor. You serve no function then, Mr. Wilkinson, if that is the position you are going to take.

Mr. **Wilkinson**. We are attempting to examine, regulate, and supervise, and that is a lot different, Mr. English, than dictating.

Mr. **English**. You are coming in and asking for cease and decist authority and you won't even use the authority you already have.

Mr. **Wilkinson**. It is an entirely different issue.

Mr. **English**. I don't think it is different at all. It is a question of whether you will utilize the authority. Maybe another Governor would, but you haven't. Mr. Wilkinson, two State attorneys generals have testified before the House Agriculture Committee about the roughshod tactics being used by the Farm Credit Associations against borrowers in financial trouble.

Now I understand that a total of 11 attorneys general have written to us suggesting changes that should be made in the operating procedures. How do you propose to respond to those recommendations?

Mr. **Wilkinson**. We would respond to them as we have captured, fortunately, in our testimony presented to you and in a very carefully structured indepth response to them, which I will be very pleased to submit to the committee, for we did meet with their representatives approximately three weeks ago.

We listened to their very carefully developed concerns and some of them are proper ones. Some of them are asking for requirements that go far beyond the rest of the financial world and would be costly but, yes, we have already responded to them.

Mr. **English**. What changes have you made? I can't hear you saying any changes that you are making as a result of it. I heard you say you have met with them, you have listened to them, but what changes have you made?

Mr. **Wilkinson**. Exactly. Some of them are in regulations that were already being promulgated.

Mr. **English**. Can you cite to me those changes, please?

Mr. **Wilkinson**. Yes. Disclosure. We have a regulation that has been out to the farm credit system and to the public for the last 60 days.

Mr. **English**. What authority to you have to back that up, that regulation up?

Mr. **Wilkinson**. That regulation is very adequately backed up by the statutes udner which we operate.

Mr. **English**. What do you do to somebody if they don't do it?

Mr. **Wilkinson**. That is exactly why we have come to Congress.

Mr. **English**. I got through telling you you haven't used the authority you have already got. Mr. Craig pointed out to you you haven't used the authority you have already got.

Mr. **Wilkinson**. You are dealing with different issues than the attorney general's were concerned with.

We believe the stockholders and investors are entitled to that disclosure, and this answers several questions of the attorneys general.

Mr. **English**. There is absolutely nothing you can do?

Mr. **Wilkinson**. We are asking for more authority to do things faster.

Mr. **English**. Can you guarantee you will use it?

Mr. **Wilkinson**. Yes.

Mr. **English**. What assurances do we have you will use it? What demonstration?

What authority do you have now that you have used?

Mr. **Wilkinson**. We are asking for the same authority as the other financial regulators to cause things to be changed.

If you have a board member that is sitting there and failing to take action to remove a president or whatever it may be, then we would be able to act, and you have been coming to us all morning saying, "You didn't act. You didn't move. You didn't cause a change."

I am here asking that we have authority to bring about change and to do it much faster.

Mr. **English**. The thing I have been hearing, Mr. Wilkinson is saying, "We had this authority, but this was too drastic. We don't want to take steps like that—that is too much. I would never do that."

That is the kind of impression we have.

Mr. **Wilkinson**. You have to have the authority that will not jeopardize the soundness and the borrowers who have been taking care of their requirements of principal and interest.

Mr. **English**. Mr. Wilkinson, your regulations require banks and other associations to adopt loan service policies which go the extra mile before taking the drastic action of foreclosure.

We have ample evidence that the banks either don't have those particular policies that you are talking about or they are being ignored.

Are you doing anything to make sure those regulations are being followed?

Mr. **Wilkinson**. I think you are speaking of the forbearance policy. It was a policy of our Federal Board some 2 to 3 years ago, and much has been done in this area.

Much has been done. There have been farmers who have had their loans restructured, and they are with the system today.

You are dealing with borrowers who have been through the forbearance process, the restructuring process in some cases, and who still are unable to evidence the repayment capacity.

You are dealing with the next group, those that have been served and have been given all the opportunity possible.

Mr. English. We have a number of specific cases that don't seem to back up what you are saying, Governor, on that, that people who have not found themselves in a position where they have experienced the type of forbearance and lack of drastic action that you are mentioning.

Mr. Wilkinson. Would you permit us to investigate those specific cases and report back to you?

Mr. English. We would, indeed.

Mr. Wilkinson. We would like very much to follow our specifications.

Mr. English. These were examples that were provided to us by the various attorney generals, and we have got several of those that I am sure you have those already.

We will get together with you and see what the specifications——

Mr. Edwards. We have asked for the attorney generals to provide us with the specific information to follow those cases, and they have refused to do so.

Mr. English. They gave them to us, so we will provide them to you.

With regard to the restructure of the farm system on January 1, 1985, there were 803 associations of the Farm Credit System, 365 PCA's, 438 Federal Land Bank Associates.

This was done significantly and with the current districtwide mergers complete over the next 6 weeks, provided the stockholders approve them. Again, given the gun that is held to their head and they are being faced with those choices, that means 277 have disappeared since 1985.

In the beginning of 1986, 6 of the 12 banks will have one central PCA and 5 will have one central Federal Land Bank Association, and in none of those districts will the shareholders have a chance to vote for the entire board of directors of their associations, a point I made earlier, and in five of the districts, the centralized PCA will be in direct competition with PCA's that did not want to join the central organization.

Do you believe this is in keeping with the Farm Credit System structure which was envisioned by the original act which provides for the establishment of an association by as few as 10 borrowers?

Is this consistent with the way that law was set up and what was intended by Congress?

Mr. Wilkinson. I think what you need to look, in addition to what number of associations we are dealing with, is how many Farm Credit service centers will be out there working with the borrowers.

That is the important thing.

Mr. English. I don't agree.

We are talking about the ownership of the system. The question is how in the world can you say that this is in conjunction with, similar to, intended by, in the spirit of the original act?

Mr. WILKINSON. One of the basic problems which our Farm Credit System, yours and mine, faces, and has faced for a period of time, is that its structure was dealing with the structure of agriculture in the 1930's and 1940's and 1950's, and the system has not changed in that structure.

It still has rigidly separated credit banks and PCA's, land banks, and BC's, and they cannot do anything because of the act of Congress.

The important thing is not the number of PCAs. The important thing is how does a farmer today, a rancher today, and an agricultural cooperative today, want to be serviced?

Mr. ENGLISH. And who owns the system?

Mr. WILKINSON. They do own that system. They own it. There is nothing sacred about a number of associations. The ownership is still in the hands of the stockholders.

Mr. ENGLISH. But the point is whenever you are reduced by well over a third, the number of associations that you have got, there is no way in the world that you are going to have the control you have had before.

The other point, Mr. Wilkinson, if this is the case, this is the difficulty and you needed this change, why didn't you come to Congress to make this a fact?

Why go through this type of coercive vote in an effort to bring it about? Why not come to Congress and make a case for us?

Mr. WILKINSON. I think, knowing your knowledge of the system and knowing the difficulty you would anticipate, even today in having the system itself or its regulator recommend major restructuring of the system, I think you would have to acknowledge it is not going to be the easiest task, because there are still many out there that believe in a separation of a land bank from a credit bank.

Mr. ENGLISH. That means that basically, the members of the House and Senate Agriculture Committees would not likely be bullied into this kind of an operation, this kind of a change.

Let's look at one of the combined districts that we are going to have. There are going to be three central banks going through a common board of directors for the district.

A board will serve the district and each of the banks. The board has combined the effective functions of the bank, so the chief executive officer of the district is also the chief executive officer of each of the banks.

Now, the local associations have been combined with two boards of directors which will have combined executive functions of both PCA's and Federal land bank associations.

So, we are going to have one chief executive officer for the district banks, one chief executive officer for the associations, and three boards of directors, none of whom have been elected by the entire membership.

Now, does that sound like a cooperative to you? Mr. Wilkinson.

Mr. WILKINSON. That structure is dictated in this Farm Credit Act of 1971, that very structure that you have just indicated.

It still indicates in the law and the act today that there has to be a separate production credit association board of directors, a separate land bank association board of directors, and of course, you have got the district bank serving the three banks that are, in some cases, as you cited under one management team—that was the decision of those stockholders in that particular district. They would like—in many cases, sir, they would like to streamline that by allowing changes to take place.

Mr. ENGLISH. I would also say to you, again, with threats, coercion, of simple flat fear of loss of stock, that is how you got that kind of support for it.

Mr. WILKINSON. That is a real fear. That is a real fear. You know it, and I know it, and our concern was that if you allowed those autonomous associations to be on the brink of insolvency, those farmers had a legitimate concern regarding their stock.

Mr. ENGLISH. The question comes around, though, Mr. Wilkinson, are you making that fear?

Are you using that fear to bring about changes that you know under other circumstances the stockholders would not approve, or are you bringing about a fear of something that is going to have to be solved in Congress as opposed to something that could be solved by the so-called merger?

There is no way this merger is going to prevent the type of catastrophe that you are talking about, is there, by itself?

Mr. WILKINSON. A catastrophe—you mean a demise of the entire system or the liquidation of a PCA?

Mr. ENGLISH. Liquidation of all PCA's. They are all tied together. You have said it is all one big deal. So, we are talking about all or nothing.

Is the system going to go under or be saved from going under simply because of the fact that these mergers take place?

Mr. WILKINSON. That is one part of the step.

Mr. ENGLISH. Is that going to do the job? Can Congress ignore any type of farm credit association if these mergers take place?

Mr. WILKINSON. I am here to indicate to you Congress cannot afford to ignore the basic problem.

Mr. ENGLISH. Given that, if the Congress then should decide to provide that assistance, and along with the administration—I should say the Reagan administration evidently doesn't want to provide it, and that is some place you and I certainly agree on—but if the Congress and the Reagan administration does provide this kind of assistance without the mergers taking place, will the system survive?

Mr. WILKINSON. You will have a tremendously much larger cost to the Government, to the taxpayer.

Mr. ENGLISH. In what way or what item?

Mr. WILKINSON. Because you will have not been able to have used the system's own finance.

Mr. ENGLISH. The system's own finance can be merged. The law provides for that. You have the authority to do it. The system can now move into the same buildings if that is going to save money.

They can take whatever steps are necessary to utilize the same facilities. Now, what else?

Mr. **Wilkinson**. The system has to merge its financial resources. It has to eliminate many of its brick and mortar facilities as it possibly can and still provide service.

Mr. **English**. They have the authority to do that now.

Mr. **Wilkinson**. It has to evaluate how many directors does it still have to have. Per diem cost, $5,000 to $7,000 directors happen to be costly.

Mr. **English**. So, the question then comes down—this is the issue that perhaps you should be presenting to the stockholders—the real question is this, folks, is whether or not you want to provide under your system for a local board of directors at whatever cost may be associated with that.

Here is what that cost is, or we can eliminate that. We are going to strip down, eliminate—we might as well eliminate those board of directors at the district level.

Why in the world worry about them? We can save a lot of money. All we need is that, those few employees at the Wichita level, and they will tell us how we are going to do things.

That is where you save money. I mean, you know, there is no sense in going halfway on this thing. You might as well go all the way.

The question comes down to the cost on the directors. Let them decide on that basis.

Let's decide on that amount, but certainly it isn't going to be enough to cover that $5 to $6 billion you are talking about needing up here before Congress.

Mr. **Wilkinson**. That is correct.

Mr. **English**. It is going to be a drop in the bucket for $5 or $6 billion, isn't that correct?

Mr. **Wilkinson**. That is correct. But it has to be done.

Mr. **English**. But why? That is a judgment that should be left strictly up to those stockholders, and it should be put to those stockholders on that basis, and let them decide which direction they want to go.

Mr. **Wilkinson**. And it has. It has.

Mr. **English**. It has not, Mr. Wilkinson.

Mr. **Wilkinson**. That is what the stock disclosure requirements have. That is what those boards have been working on foremost, and it is not being dictated from FCA in Washington.

Mr. **English**. Your system is going to go broke. You are going to lose your stock, and we are going to freeze you out, and we are going to put you under if you don't agree to do away with your local directors.

That is basically what we are talking about. It is the local directors. That is basically what we are talking about, is the local control.

Mr. **Wilkinson**. I am having difficulty, Mr. Chairman, in evaluating what truly should be shared with stockholders, really what needs to be shared with stockholders.

Mr. **English**. The nitty-gritty, the bottom line.

Mr. **Wilkinson**. The bottom line is exactly right. You and I are together on that. The bottom line.

Mr. ENGLISH. Let's do away with all the fluff. Let's do away with all the pages of stuff—garbage, quite frankly—that is sent out to the stockholders to try to convince them it is something that is important, of great magnitude, because, basically, all we are talking about is the bottomline, the only issue in this whole thing of merger comes down to who is going to control your system and how it is going to be done; whether you are going to do it locally through your elected directors, as you have done in the past, or whether they do away with the whole thing. And it is going to be done out of the 12 district banks, and those banks will make the decisions for you.

That is who is going to run your system, and there are quite a few of those stockholders who understand that. But we haven't had many people on the banks that have had the nerve, if you would, or the conviction that they can convince those stockholders that is what needs to be done.

Instead, they have come back and they have felt the need to reach for such weapons as threats, as coercion, as fear, and that is what you have approved, Mr. Wilkinson.

You have agreed to let them do it. You have agreed to let them get away with it.

Mr. WILKINSON. Mr. Chairman, I have held up the same disclosure book you have, and I have asked myself why so much information to stockholders.

I have been assured by attorneys and others that that is required under all kinds of good business practices, and then I have also been told—and I can cite chapter and verse, and I think you can too—that there are those, if they do not favor the vote as it comes to pass, they then can evidence that this information was not included in the disclosure statement.

It is, therefore, the policy of the Farm Credit Administration to require business standards in the disclosures to their stockholders, the same as other business entities have.

I say that knowing that not 1 percent of the stockholders will read every page of that disclosure statement.

Mr. ENGLISH. What we are coming down to, Mr. Wilkinson, is how many directors should we have? How much representation should there be? How much control should the local stockholder have? How much influence over the decisions on the loans that are going to be made will he participate in? Who will—the local president of the local association—who is he going to respond to?

Is he going to respond to the local board of directors as he does now, or at least he is supposed to now, or is he going to respond to the district banks?

Those are the questions we are really facing. This leads us down to the bottom line of this whole thing, and quite frankly, something I really suspect, Mr. Wilkinson, I have got to say.

We have had two issues before us. One has been the financial issue, and it has been used and used, in my opinion, as an excuse, a cover, a smokescreen for the merger.

We get down to the issue of Project 1995. You are very familiar with Project 1995, aren't you, Mr. Wilkinson?

Mr. WILKINSON. Yes.

Mr. English. As I read the report, the Farm Credit System wants to transform itself into a nationwide full service bank with a holding company at the top.

The borrowers would be the shareholders in the holding company. The company would own the district banks, the 12 probably, and the district banks would own the branches in all the States.

Now, this plan looks a good deal like some of the districts except that the branches established can't conduct full service banking.

What are your thoughts on Project 1995 and how it fits in with the way the System looks today and the changes you are bringing about as far as the merger?

Mr. Wilkinson. Let's remember, as I think you do, what the origin of Project 1995 was.

It does not direct its attention to the severe situation we find ourselves in today. The Farm Credit System, for one of its several teams, was backing off and evaluating what did its borrowers want in their System as it looked to the future, 1995—at this time, want the same structure within its System as it had in the 1930's, 1950's and 1970's.

You are quoting from a part of a long range study paper, study project done in depth by many System people.

We were informed as it was progressing, but that part and that issue does not face the problems which the System is facing today.

If your question was, Mr. Chairman, whether it was a good idea for the System to have a 1995 Project, whatever its outcome, I think the answer would have to be yes.

A good institution of any type will have to look to the future as to how it can best do its job.

That is exactly what the System has been doing.

Mr. English. I just note with interest this project that was done for the good of the System to try to pull together some ideas that borrowers might want.

I know that Marsha Martin was so enthusiastic about that fine work that states in here on the fourth paragraph, "The report you are receiving is extremely confidential within the System. Only bank presidents, district directors and a few others like you have copies."

A hundred copies—not many. Pretty exclusive.

Doesn't sound to me much like a proposal that is being done on behalf of all the stockholders. We don't want anybody else knowing about it.

Mr. Wilkinson. That was not a proposal, Mr. English. That was only a summation or whatever term they use.

Mr. English. How much did that study cost?

Mr. Wilkinson. I don't know, but it was System—do you have anything?

Mr. English. Well, over $1 million, from my understanding.

Mr. Wilkinson. I would presume so; yes. But it was System initiated, System operated, System financed.

Mr. English. I am not arguing with that. The point I am making, though, is this, Mr. Wilkinson. The changes that are taking place in the Farm Credit System are very similar to what is called for in Project 1995. You are not setting up a bank holding company, but certainly bringing about many of the same changes.

Mr. **Wilkinson**. No.

Mr. **English**. You are setting up a capital corporation that has many of the same—looks very much like the holding company called for in Project 1995.

Mr. **Wilkinson**. But it is because of a totally different need. There is a strong need for a capital corporation because of the stress loans right now.

That was a totally different issue than Project 1995 proposed.

Mr. **English**. I have got to say, Mr. Wilkinson, as I said, I suppose I gave my summation a little bit earlier—that really what it comes down to, the real issue on the merger, is the question of who is going to have control over the System and the number of representatives the local people will have, and whether you believe the more represented you are as an individual stockholder.

I think that, without question, that that is the principal purpose. You have the authority to move funds from one region of the country to the other. You move it from PCA to Federal Land Banks, from Federal Land Banks to PCA, whatever shifts needed from one end of the country to the other.

You have the authority and have already issued regulations which evidently are not being followed, and you issued them some time ago, that we should issue the most economic procedures and which they can consolidate within buildings and eliminate those buildings, and quite frankly, other than the elimination of the elected representatives of the stockholders and doing away with that direct control of those stockholders, I, quite frankly, cannot see that there is any purpose that the merger has.

It solves nothing as far as from a financial standpoint, as you have already admitted yourself. It is a drop in the bucket whenever we look at the financial difficulties being faced by the Farm Credit System.

The only place that that can be dealt with is with a large infusion of funds or at least a line of credit or some type of assurances through the Federal Government.

Quite frankly, I support that. I am hopeful that will be done, and I am going to do all I can to help bring that about, but I will have to say to you that the merger, to me, simply—I think it is wrong.

I think it is very wrong. I think it will eliminate the local control. I think the purpose for it is because of Project 1995, and I think that is to help implement it. And I think the bottom line is going to come down that you are probably going to get hung out in between.

I don't think the Farm Credit System will ever be allowed to become a full service bank. I just don't think that will happen.

I think it may risk the cooperative status of the Farm Credit System. So, I would urge you use some of that authority you have got, Mr. Wilkinson, and you exercise it in a vigorous fashion, and I particularly would urge you to do that before you come to Congress seeking additional authority.

Mr. **Wilkinson**. Do I gather, Mr. English, that you have no problem with the support, evidencing your interest as a Member of the Congress in the use of the transfer of funds authority?

Mr. **English**. If that is necessary to save the system, and particularly if it is necessary in order to—well, let me say that it is happening any way that you look at it, I suppose, because if you have that merger happen, it is whether the local association is going to have to give up all their local authorities and simply have their funds taken away that way through coercion or whether you are going to do it from up here.

I would rather leave them with the authority and control over their associations as opposed to having them give up that authority and then have it taken away from them.

So, I think it is a question of two distasteful steps that have to be taken, and quite frankly, I would prefer to leave the people with control over their own associations.

Mr. **Wilkinson**. You do confirm, as I have heard you this morning, the fact we should try to perpetuate the stockholder involvement, stockholder interest, the cooperative philosophy, but to recognize that it is one system, not 37 separate banks going their own way or 700 associations going their own way.

Mr. **English**. Indeed, I think there is a happy balance, a happy medium, if you can, that can be struck with that, without completely destroying the system.

I think without question, the local associations should be allowed to retain control over their own fate. By the same token, I think we all recognize we are in unusual times, and I would certainly be the first to state until prices of agricultural commodities improve, the Farm Credit System is going to be facing grave difficulty regardless what management steps are taken, and it is likely to need additional financial assistance from the Federal Government in the future, and as I said, I will certainly be supportive of that.

I don't think the Federal Government has any choice. The catastrophe that would be brought about by the default on those bonds would be enormous, and it wouldn't apply simply to the agricultural sector. It would apply to the entire economy of our Nation.

It would affect unemployment, affect the deficit, and in the long run, this country would pay far more in that regard than they would pay assisting the Farm Credit System.

But I think that any time that somebody's house is on fire, I think everybody pitches in and tries to help out. But in this particular case, I don't want to see everybody—assuming if you take away a person's right to determine his own fate or in a local association's own fate.

I think those associations who maintain good lending practices, who have managed through conservative lending practices to maintian surpluses—they should be commended.

Those who have not, I think they should be receiving the full glare and gaze of the Farm Credit Administration, and a good deal of incentive and action to try to bring about changes.

Mr. **Wilkinson**. You have indicated your feeling that the total resources of the system must be utilized to as much of a degree as possible before we use tax dollars.

Mr. **English**. Well, I think really what it comes down to, there is two ways you can approach it.

You can approach it on an individual basis in which their tax dollar is made available to deal with that fire, if you would in the house, or whether you try to bring the full resources together which may spread the fire.

And under these circumstances, I think we are already beyond the point of where you address a single association.

It appears to me the fire is already spreading, and I am not sure that that is an alternative that we have left to us, and that is the reason I think that, without question, I don't think it makes much difference how you utilize those resources.

We are going to have to have the help. We are going to have to have it soon. As I said, I would vigorously support that as long as I can go to make every effort I possibly can try to make certain those local stockholders retain control over their associations and their own fate.

I think I will not support a bailout of bondholders by themselves.

Mr. WILKINSON. And those stockholders, even though they may be a separate association here, do and will pledge their equity.

Mr. ENGLISH. That was pledged a long time ago, Mr. Wilkinson. I don't think that is a question any longer.

Mr. WILKINSON. That is very important, and I thank you for it.

Mr. ENGLISH. I thank you for coming. We have probably ruffled some feathers today, but quite frankly, I think these are very basic issues.

I think they are going to be extremely important as we determine the future of the Farm Credit System. As I said before, my father spent 35 years with the Farm Credit System as a bank president. That is a good part of my life.

I want to see it continue as a strong system, one out there helping farmers and playing a major role in developing American agriculture in this Nation, but in the end, it has got to be controlled by the farmers themselves.

Mr. WILKINSON. Thank you. We will pledge our efforts to that, sir.

[Additional questions from Mr. Kindness and Mr. Lightfoot, with replies, follow:]

QUESTIONS FOR FARM CREDIT GOVERNOR WILKINSON

MR. KINDNESS. Would you agree that two of the principal causes of the current financial problems of the Farm Credit System are 1) the drop in farm income which disables farmers from making loan payments and 2) the drop in value of collateral, particularly real estate?

MR. WILKINSON. They are the immediate causes from the viewpoint of the farm lender. Capacity to repay (income) and collateral protection are two of the five factors considered in a credit decision in the Farm Credit System, and both of these have suffered major declines. But they are simply symptoms of major changes in economic forces from the viewpoint of the agricultural sector. We would regard three basic changes as the underlying causes of the financial problems of the System.

1. Major deterioration in the long-run forecast of the supply-demand balance for farm products -- which demolished expectations of generally rising commodity prices -- strong farm income, and strong land prices during the rest of the century. Investments based on such expectations are not viable under current economic prospects. Adjustments to lower financial leverage are necessary and are difficult or impossible for a significant portion of producers. This basic change of prospects is expected to reverse much of the expansion in production that took place during the 1970s.
2. The macroeconomic policies used for inflation control -- relying on monetary restraint with expansive fiscal policies -- both eroded repayment capacity of farmers and reduced the time available to achieve adjustments to new market prospects. They created high foreign exchange value of the dollar and high domestic interest rates. The effects were weak farm exports and reduced income, high real interest rates that worsened the burden of carrying debt, and weaker land price prospects. An inflation expectation built into land prices in the 1970s disappeared and the real cost of borrowing for purchase increased. Both discouraged potential buyers at the very time other landholders needed to sell all or a portion of their property to reduce debt leverage. These transition effects imposed a heavy burden of rapid adjustment on the farm sector, which has thus far outweighed the benefits received from reduced inflation rates.

   So far, the existence of farm commodity price supports has shielded the farm sector from some of the impact of the changed supply-demand situation. As a result, repayment problems for farmers have been more a matter of higher interest charges than of falling gross income, but it now appears that the price-support protection has created Federal budget pressures requiring that those supports be reduced. This will tend to reduce gross income in the future. Unless interest rates come down and farmers act to restructure their financial leverage, the farm loan repayment problem will worsen.
3. The situation was made worse by cyclical weakness in export demand due to economic recession in much of the world, and by excesses in lending and borrowing practices in some situations during the 1970s.

MR. KINDNESS. In your estimation, has the decline in farm income and the decline in collateral value leveled off, or are they continuing to decline?

MR. WILKINSON. Both farm income and collateral value have continued to decline through much of 1985. Support provided by the commodity programs, in combination with very high crop yields, is giving farm income a boost for those participating in the program. Nonparticipants will face weaker returns. The prospects of significant crop carryover for the next several years offer little hope for rising gross returns, especially when faced with the need to reduce Federal farm program expenditures and to lower support prices to regain export competitiveness. Thus, any net income improvement will likely be the result of paring costs.

Further weakening in both farm income and in land values is likely in order for income and land values to come into a sustainable balance with economic prospects. Land values are likely to suffer additional downward pressure from the unusually large acreages that need to change ownership in order to bring sellers' financial leverage positions into line. In such a market, potential buyers have reason to expect that prices may dip temporarily below the sustainable equilibrium level.

MR. KINDNESS. Most of the 12 Farm Credit districts either have considered or will be considering plans to consolidate the Federal land bank associations and the production credit associations into one districtwide association. I would like to ask some questions about the rationale and justification for consolidation before getting into questions about the ways in which these consolidation plans have been carried out:

Is consolidation into districtwide associations consistent with the congressional declaration of policy and objectives found in the Farm Credit Act, specifically at 12 U.S.Code 2001(b) wherein it states "It is the objective of this Act to continue to encourage farmer- and rancher-borrowers participation in the management, control, and ownership of a permanent system of credit for agriculture. . ."?

MR. WILKINSON. There is no question that the System will remain borrower-owned and directed by boards elected by the stockholders. No changes are being made or recommended for those provisions of law governing the selection of directors or listing their authorities. If anything, the Farm Credit Administration encourages district and association boards to be strongly involved and to take responsibility for establishing sound business policies and practices.

Merger into districtwide associations does not change the relationship of the member-borrowers with their association. The size of the association is increased so that each stockholder has proportionally less power over the selection of board members, but the total membership has no loss of control. In addition, the districtwide merger plans submitted to the membership have included service areas with elected advisory boards to provide greater input from member-borrowers.

It should be noted that the Farm Credit Act of 1971, as amended, specifically encourages association mergers and consolidations. Section 5.18 (2) specifically authorizes the Farm Credit Administration to encourage merger or consolidation where the result will be better service to the borrower and greater financial stability.

MR. KINDNESS. What problem facing the Farm Credit System is consolidation intended to remedy?

MR. WILKINSON. Financial resources are dispersed throughout associations in the districts, and it is difficult to allocate funds to where they are needed in a timely fashion. Consolidation into one association or fewer associations will centralize resources and result in greater financial stability for the districts. In addition, improved services to stockholders and more efficient operations should result. Consolidation may also reduce the likelihood of liquidating associations.

MR. KINDNESS. If poor management led to poor lending decisions in the past in some associations, how widespread was this problem and did you exercise your authority against those associations?

MR. WILKINSON. Poor management can certainly be considered one of the reasons for poor lending decisions made by some associations. Another factor for poor lending decisions was the once-popular use of director loan committees wherein elected directors, themselves borrowers, in large part constituted the association's loan committee. This practice was considered by the FCA to be an ineffective method for loanmaking decisions based on the assessment of risk elements in each loan application. FCA, through its supervisory influence, directed associations to adopt professional loan committees consisting primarily of the association loan officers and management in an effort to improve the quality of the loanmaking function.. However, in the absence of enforcement powers, FCA was unable to control poor management and liberal lending in many associations. It must be pointed out that no one predicted the dramatic decrease in both farm income and collateral values that currently plague the agricultural sector.

In the case of one such association where liberal lending practices were cited, the FCA issued a special review citing substandard credit administration, high employee turnover, an excessive level of high-risk loans, and poor assistance from the supervisory bank. Consequently, the association suffered substantial loan losses and was voluntarily liquidated when it was apparent the association was no longer viable.

The FCA has used its supervisory authorities, sometimes successfully, sometimes not, to convince the association board of directors and the supervisory bank that problems that existed in the association were directly traceable to poor management practices. Unfortunately, in the previously cited case, FCA was unable to convince the association or the supervisory bank that the association was headed for insolvency. However, the nature of such problems is not as widespread as are the problems caused by severe financial stress in the agricultural economy.

MR. KINDNESS. With consolidation, it appears to some that well-managed associations are being punished for the sins of less well-managed associations. How do you respond to that?

MR. WILKINSON. The decision to consolidate rests with an association board of directors and its stockholders. The bank cannot force a consolidation unless first voted on and approved by a majority of stockholders voting at a meeting in which a quorum is present. Consolidation should result in a more efficient use of resources for the overall benefit of the American farmer. Consolidation also often reduces the likelihood of liquidations. As a result, the better associations are spared the good borrower flight often associated with liquidations by other associations in the district.

MR. KINDNESS. What benefits will accrue to the System which could not be achieved but for these consolidations? For example, are there any cost savings that would be realized and if so, how much and by what means will they be achieved?

MR. WILKINSON. While it is not possible to estimate the ultimate benefit to be received as a result of consolidation, several benefits should be gained. Because the consolidations result in a combination of capital and risk funds into one PCA and one FLBA, the end result should be more stable financial institutions with which the borrower does business. Those institutions, which were experiencing financial difficulties, will benefit from the capital of the good associations, with the end result that all borrowers are provided a reliable source of credit.

Consolidating PCAs and FLBAs into districtwide associations will not result in a legal consolidation of the FLBAs and PCAs. However, the associations will operate under common management with common employees and facilities. This should result in the Farm Credit System being able to more effectively meet the needs of borrowers by having the same loan officer discuss both long- and short-term credit needs. This should also result in more effective credit administration and more consistent application of district policies. The common management and common facilities should also result in cost savings because of the potential for eliminating duplicate facilities and staff.

MR. KINDNESS. I would like to ask you whether you believe that the Farm Credit System needs an infusion of capital. But, before answering that question, I want to ask whether you believe that the Farm Credit System has sufficient assets of its own to meet its needs. Some have contended that an infusion of capital is not needed because the System has adequate capital which, if moved around throughout the System, can take care of the members' credit needs.

MR. WILKINSON. First let me address your reference to capital infusion. I believe it is more important to talk about confidence than the absolute need for capital infusion in the Farm Credit System. Clearly, our projections indicate that a "safety net" is needed to maintain confidence in the System by its stockholders and those who invest in its securities.

We believe stockholder flight has and is already occurring in production credit associations — particularly in the most threatened districts, namely Spokane, Omaha, Louisville, and Jackson. The PCAs in these districts have experienced a loan volume drop of 40, 25, 20, and 19 percent, respectively, during the last year (ending June 30). The PCA system as a whole has experienced a 15-percent decline.

We are seeing signs that borrower flight is beginning to occur in the Federal land banks as well. The best borrowers are refinancing and leaving the System's portfolio weakened still further. Remember also, that when a System borrower refinances outside the Farm Credit System, the stock purchased in the association is retired and returned. Borrower flight reduces the System's capital and earnings base.

Although borrower-stockholder confidence is important in the long term, the most threatening breach of confidence is occurring in the money markets. Investors in System securities are demanding high premiums in this period of uncertainty. System funds are costing nearly 100 basis points above Treasury issues. The System is having difficulty selling its notes and bonds for the first time since the Great Depression. If these spreads continue, increased and heavy interest costs will be borne by the remaining borrower-stockholders of the System — those least able to pay. Securities maturing beyond 6 months are not marketable at this time. Sales of 9-month issues and beyond have been canceled. The System's funding is becoming seriously short.

I am concerned that the System may face extreme difficulty in obtaining sufficient funds to retire maturing bond and note issues in the next 3 to 6 months.

MR. KINDNESS. Does the System currently have sufficient capital reserves to satisfy its needs?

MR. WILKINSON. A simple answer to your question concerning the System's adequacy of capital reserves is not possible. Over the next 18 to 24 months, the System appears to have capital sufficient to absorb the losses it has projected. This assumes that all System capital can be efficiently applied where needed. Over the longer term, a backup or safety net is needed to protect against additional adversity. The System's competitive position, however, may be lost well before the damage is reflected on its balance sheet. This is true because capital is adequate only so long as investors in the System securities think it is. Adverse trends in financial ratios are likely to result from continued deterioration in the agricultural economy, additional loan losses, and loss of the System's ability to attract and retain financially sound borrowers.

These trends threaten the System's ability to continue to sell securities well before capital is lost. The System would likely be unable to fund itself and yet retain substantial financial resources if the financial markets lose confidence in the System's ability to manage its financial problems and become unwilling to refinance its maturing debt obligations.

The effects of a loss of market confidence would be devastating. The financial markets will be impaired with major additional cost borne by other agency market entities and investors holding FCS and other agency securities.

MR. KINDNESS. Under what circumstances do you believe that you would need an infusion of capital from outside the Farm Credit System?

MR. WILKINSON. There are three critical points that may cause outside capital to be needed in the System:

1. If the security markets refuse to purchase the System's new issues to replace retiring bonds and notes, or;
2. When the System's capital base has been so severely depleted that stockholders believe their stock investments are in imminent danger of loss; or
3. When the System's capital base has been so severely depleted that it cannot absorb additional adversity or serve as a base for future earnings.

Through FCA and System studies we have learned that when earned net worth declines substantially, future viability of System associations and banks is lost. This means they are unable to generate sufficient earnings to remain in business. We have also learned that infusions are needed early to minimize the level of assistance that must be granted to keep institutions viable. We believe this holds true for the System as a whole.

In summary, I believe the FCS needs a temporary helping hand from the Congress and the Federal Government to bolster confidence in its stockholder base and its investor markets. As you know, the FCA has proposed specific legislation that would provide the needed changes to reverse waning confidence in the System's viability and ensure that its unique services remain available for future American farmers and ranchers.

MR. KINDNESS. On September 10, 1985, you issued new regulations, effective immediately, which set forth standards and procedures under which the Farm Credit Administration may direct a transfer of funds and equities between Farm Credit System institutions. Since regulations can only explain and not enhance your statutory authority, would you give us examples of how you have used that authority in the past to move funds and equities between FCS institutions?

a. (If he has exercised that authority) Has your authority to transfer funds and equities ever been challenged and, if so, what was the disposition?

b. Since September 10, 1985, have you exercised your authority according to the standards and procedures set forth in that regulation to direct transfers between FCS institutions?

IF NOT:
  1. Do you contemplate exercising that authority in the near future?
  2. If you have not exercised the authority, why did you exempt the rule from the 30-day notice requirement in the Farm Credit Act and thus give it immediate effect?

MR. WILKINSON. Prior to the current farm crisis, the financial strength of the Farm Credit System has been such that it hasn't been necessary to move funds or equities between institutions. In addition, FCA has not exercised its authority to transfer funds and equities since the current financial crisis became evident. However, it may be necessary for FCA to exercise this authority in the future. The rule was given immediate effect because of the vulnerability of the System's current financial position, not only in the financial condition of its assets but in the vulnerability of its access to the bond markets. The inadequate action taken by the System in the past increased the likelihood that the Governor would be called upon to prevent System bond defaults. Given the impact of default or even near default on the System's funding access, FCA had to be in a position to take actions to transfer funds between System institutions well in advance of imminent default.

MR. KINDNESS. Earlier this year, the Farm Credit System proposed a plan to assist the Spokane District. The assistance was predicated in part upon approval of a merger of all the PCAs in the district into one districtwide PCA. That merger was approved by all but two of the district's PCAs. Subsequently, the new districtwide PCA was given all the territory in the district, thus putting it in direct competition with the dissenting associations.

How is that result consistent with Farm Credit Administration regulations, specifically 12 C.F.R. 616.6020, which states that "District policies should minimize the possibility of injurious competition among institutions of the System. . ."?

MR. WILKINSON. In each case where a proposed association charter overlaps with the charter of another association, the Governor must determine whether granting the overlapping charter will result in injurious competition, but that does not preclude any competition between associations. A number of PCAs have been overchartered to serve ranching needs, especially in the West, and they have not been restricted from lending for other eligible purposes to borrowers who have access to other PCAs as well. In addition, there are a number of circumstances where a borrower could qualify for either a land bank or production credit loan.

The issue raised by section 616.6020 turns on the factual situation in each case. In the case of Eastern Idaho, that association's strong lending position makes it very competitive with the districtwide association. Furthermore, the districtwide association is barred from efforts to "raid" members of Eastern Idaho PCA by existing policy of the Twelfth Farm Credit District.

MR. KINDNESS. How is that result consistent with FCA regulations which require district directors and employees to act impartially? How can they in this situation?

MR. WILKINSON. District directors and bank employees have no inherent conflict of interest in serving the districtwide PCA or Eastern Idaho differently. Both PCAs are independent of the district FICB. The bank's responsibility is to discount the notes of the PCAs and the same standards will be applied to all PCAs in the district.

MR. KINDNESS. Other districts around the country are contemplating various merger plans. Is the experience of the dissenting associations in the twelfth district a harbinger of what will happen to any PCA which votes against a merger plan?

MR. WILKINSON. There is a contrary precedent in the Jackson District where one PCA did not vote to join the districtwide PCA and the districtwide PCA's boundary excludes the geographic area served by the separate PCA. Generally, there will be pressures from the district levels on individual associations to vote for district approved merger plans. FCA monitors the process and where the district board or a bank oversteps its appropriate role of advocate and threatens retaliation, FCA will take immediate corrective action.

MR. KINDNESS. I have seen reports that Farm Credit System institutions are disposing of property acquired through foreclosure with terms which do not include a requirement that the purchaser purchase stock in the institution as is required of borrowers? Would you cite the authority on which your institutions rely to offer terms which do not include purchase of stock?

MR. WILKINSON. Section 1.4 (5) setting forth the general corporate powers of a Federal land bank provides that such banks may

> Acquire, hold, dispose, or otherwise exercise all the usual incidents of ownership of real and personal property necessary and convenient to its business.

Purchasers of acquired property are not required to be eligible borrowers and, of course, only an eligible borrower can buy stock. It is important to all the borrowers of a cooperative lending institution that acquired property not be retained any longer than necessary, as it does not produce any income and must be carried by higher interest charges to other borrowers. Arrangements that permit the bank to reduce its inventory of acquired property at market rates are therefore permissible.

MR. KINDNESS. Some concern has been expressed that foreclosure and attempts to dispose of property acquired through foreclosure will further depress land values. Separate and apart from considerations of forbearance policy, what recommendations have you made to FCS institutions as to how aggressively to pursue foreclosure and disposition?

MR. WILKINSON. The buildup of nonaccruing assets, those loans no longer paying interest and acquired property not generating any income for the financial institution, is a serious problem for banks and associations of the Farm Credit System. Not only are these assets difficult to manage adequately because of the potential for further losses due to vandalism, improper practices causing soil erosion, and the additional costs of vacancy, but the financial institution is placed in a position of having to dispose of the property and collect the nonaccruing loan in a timely manner so as to lessen the impact to other members of the financial cooperative.

When a loan ceases to perform and the lender determines there is no hope for the agricultural enterprise to weather a temporary lapse in repayment, the decision is generally made to collect the loan through the collateral pledged. Because the bank and association remain liable for the total debt to their creditors, the System institution must cover the interest owed but not being paid. This can only be accomplished by raising interest rates on the loans of other borrowers or reducing earned surpluses.

FCA has not published a specific regulation or other directive to the Farm Credit System addressing the manner in which the System institutions should pursue foreclosure and dispose of acquired property. However, FCA does require the System institutions to comply with generally accepted accounting principles, which address the manner in which such assets are treated on the financial statements of the institution.

In summary, nonaccruing assets have such a destructive effect on FCS institutions that FCA has not had to provide general recommendations to the banks and associations Systemwide addressing the handling of such assets. As part of the agency's examination role, however, some FCS institutions have been cited for ineffectiveness in handling nonaccrual assets. The drain on earnings to support the nonaccrual assets has forced most FCS institutions to dispose of the assets as quickly as possible while still maintaining market structure integrity.

MR. KINDNESS. Some say that your forbearance policy is too vague and, perhaps more importantly, is not honored in particular instances. It is never pleasant to have to foreclose upon someone, but it does appear from testimony received here in the Congress that some institutions have not pursued the System's policy of forbearance as it is spelled out in the regulations.

Have you investigated these complaints and, if so, what actions are you taking?

MR. WILKINSON. The Federal Farm Credit Board has adopted a policy on forbearance stating that where there is a reasonable likelihood that a borrower of the System can work out of financial difficulty and continue an economically viable operation, the FCA encourages the banks and associations of the System to continue with the borrower. However, the desire to stay with a borrower must be balanced against the need to maintain the safety and soundness of the bank or association. There remains an obligation to all owners of the System not to force one group of borrowers to subsidize defaulting borrowers as a result of excessive interest rates needed to cover the costs to the System of defaulted borrowers.

As you indicated, some System institutions are in a better position to forbear when the borrower is in default than other harder hit institutions. It is the responsibility of FCA as the independent Federal regulator charged with ensuring the safety and soundness of the System to ensure that the effort to forbear does not jeopardize the banks and associations while at the same time providing an acceptable level of fairness to borrowers who are similarly situated.

Through the examination process, FCA investigates known complaints of failure to provide forbearance as part of the agency's assessment of the institution's credit administration practices. Where cases exist that violate district policy, these concerns are brought to the attention of the district board. However, it should be made clear that FCA has no authority to mandate collection practices through the promulgation of regulations. Therefore, no regulations exist that address loan forbearance.

MR. LIGHTFOOT . . .

Specifically what protections do you propose for the taxpayer and for the borrower/stockholder in your financial rescue package, and what is your opinion of provisions of this intent in H.R. 2609?

MR. WILKINSON. The major protections for the taxpayers are 1) that the System effectively use its capital reserves and loss reserves to cover losses prior to requesting any Federal funds, and 2) that protecting the viability of the Farm Credit System will prevent serious economic repercussions in the bond markets, agricultural real estate markets, the rural economy generally, the tax base of rural communities, and the national financial markets. The taxpayer is protected by stronger enforcement authorities and direct examination of associations that can result in identifying and correcting System problems earlier than under existing authorities. The specific authority to fully marshal the resources of the Farm Credit System to meet the problems being experienced and anticipated by System institutions will provide investors (many of which are retirement and pension funds) in the Nation's money markets with assurance that their Farm Credit System securities are sound investments. The results will be more credit access for farmers and less disruption of the agricultural economy.

The major protection of stockholders in the Farm Credit System is that the proposed contingent line of credit to be provided through the U.S. Treasury would provide some protection of their stock investment. The anticipated spend down of System assets does not include the use of member's stock prior to the availability of Federal contingent line of credit. System stockholders are therefore provided some assurance that they will not lose their stock investment.

MR. LIGHTFOOT. More to the point, under your rescue proposal what provisions will assure that borrowers: 1) are treated with forbearance, 2) provided credit at reasonable rates, and 3) that liquidated land will be returned as quickly as possible to private control, with priority given to leasing that land back to the previous operator?

MR. WILKINSON. There are no specific provisions in the FCA proposal to ensure that borrowers are treated with forbearance, provided credit at a reasonable rate, or that land will be returned to private control with priority given to leasing the land back to the previous owner. These issues are beyond the scope of FCA's obligation to protect the safety and soundness of the Farm Credit System institutions so that credit will be available at reasonable rates to all creditworthy farmers, ranchers, producers and harvesters of aquatic products, and their agricultural cooperatives. This is not to imply opposition, but rather the appropriate limitations on FCA's range initiating recommendations.

We believe that forbearance and interest rates charged to farmers are clearly affected by our proposal, inasmuch as it provides for strenghtening the Farm Credit System and ensuring bondholders of the continued viability of the System. In terms of the interest paid on System securities and on the willingness of good borrowers to stay in the Farm Credit System, it is anticipated that the agency's bill provides significant assistance.

MR. LIGHTFOOT. A report by the Texas Agricultural Extension Service entitled "Farm Credit Crisis Policy Options and Consequences" said, "collateral values have declined, in part, because of forced sales of assets for cash into a market where there is no cash." With 32% of the credit extended in the agricultural sector, it is the opinion of many people that policies of the Farm Credit System have greatly contributed to the tremendous drop in land values. What in your proposal will help to halt falling land values - a critical step at this time?

MR. WILKINSON. The Farm Credit Administration's proposal can only help stabilize land values from falling temporarily below sustainable levels under prospective economic conditions. Such a temporary overreaction would be the consequence of too large an acreage offered by owners who are under financial pressure to sell quickly and too few potential buyers due to uncertainty about the economic prospects of bargain hunting.

It is not possible for the financial system to stabilize land prices above a level justified by the economic forces that potential owners expect for the years ahead. In our judgment, this temporary stabilization would be of major importance, with the potential need for as much as 10 to 15 percent of the land changing hands in a market that sees a normal turnover rate of 2 to 3 percent per year.

MR. LIGHTFOOT. At the hearing in Des Moines, Iowa, it was stated several times that a good Farm Bill would be of major value to the System. If you recall, I asked Mr. Harling what he felt were adequate target prices. His response was "what we currently have." In the House version of the Farm Bill, we do hold targets at current levels. Do you feel that level of pricing is adequate to provide enough cash flow to get your "marginal" borrowers out of trouble?

MR. WILKINSON. The level of support in the farm bill can prevent additional borrowers from dropping into the marginal category. However, economic prospects for the 1980s are such that the more highly indebted borrowers must reduce their debt loads significantly. Analyses by several Midwest universities suggest that a portion of those farmers cannot make such adjustments even with modestly higher prices, reduced interest rates, or a resumption of some land price inflation. The result will be liquidation and losses that go beyond the resources of some farmers and dip into the capital of their lenders. These problems are especially severe and have community impacts in those areas that were brought into export crop production in the boom years of the 1970s.

MR. LIGHTFOOT. If FCA is reorganized and given regulatory powers comparable to the FDIC, what would be the first order of business you would deem necessary to get the FCS back on its feet?

MR. WILKINSON. FCA's primary responsibility has been and will continue to be to ensure the financial soundness and integrity of the cooperative Farm Credit System. Given the comparable regulatory powers of the FDIC, such as the authority to issue cease-and-desist orders, levy civil money penalties, subpoena, sue and be sued, and remove officers and directors for just cause, FCA would be empowered to properly enforce its primary responsibility. However, getting the System back on its feet is a more difficult task than merely using additional enforcement powers and an expanded examination role.

For many System borrowers, agriculture is no longer a profitable industry. Many agricultural commodities cost more to produce than they can be sold for in the marketkplace. Therefore, with limited prospects of widescale profitability returning to all agricultural producers, the first order of business for FCA to get the System back on its feet will be the continued responsibility to ensure that loan loss reserves are adequate throughout the System to absorb the currently foreseen losses and to strengthen the System by requiring that local boards of directors and association/bank managements be held responsible for the operations of their member-owned cooperatives.

MR. LIGHTFOOT. I, for one, feel we must have management changes within FCS to restore confidence in the System and put it back on a manageable and profitable track. What kind of a blueprint would you draw for FCS if you were given a clean sheet of paper and a box of new pencils?

MR. WILKINSON. This is a question the System will have to address. The Farm Credit Administration has the responsibility to approve charters and charter amendments giving consideration to financial soundness of the System institutions and the provision of local control. FCA has outlined its recommendations for changes in the relationship between the agency and the System in proposed amendments to the Farm Credit Act of 1971 and in the proposal Farm Credit System Self-Help and Federal Assistance, October 1985.

MR. LIGHTFOOT. Although not illegal, a number of loans have been documented that were, in my opinion, very questionable, i.e., a house financed for 85% of its appraised value in a big city, exclusive neighborhood, and a half-million dollars loaned for a restaurant in a ski resort. Should these loans have been made and in the future, should we have regulations or oversight, etc., to prevent this type of lending?

MR. WILKINSON. The Farm Credit Act of 1971 authorizes the Federal land banks and production credit associations to make loans to bona fide farmers, ranchers, producers or harvesters of aquatic products, rural residents, and persons furnishing services directly related to the farmer's own farm operating needs. The Farm Credit Act also authorizes banks for cooperatives to make loans to eligible cooperatives and loans to domestic and foreign parties that benefit a cooperative of which it is a voting stockholder.

In an organization as large as the Farm Credit System, consisting of 37 banks and over 750 associations, occasionally loans are made that stretch the interpretation of an eligible loan. Loans such as the ones you have cited probably should not have been made. However, lacking specific details of such loans, it is impossible for me to state that the loans were indeed ineligible. In some cases, System institutions make loans to farmers and ranchers for their agricultural enterprises taking as additional collateral a security interest in nonfarm-related property such as restaurants and urban residences. When bona fide cases of ineligible loans are discovered through the examination and regulatory processes of FCA, the institution is made aware of the regulatory violation. Enforcement powers currently introduced, if passed by Congress, will provide FCA with powers to force compliance in areas such as scope of lending and loan eligibility.

Mr. ENGLISH. Thank you, Mr. Wilkinson.

With that, we will recess subject to the call of the Chair.

[Whereupon, at 2:10 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIXES

APPENDIX 1.—LETTER FROM CHAIRMAN GLENN ENGLISH TO MR. WAYNE RAMUSSEN, ECONOMIC RESEARCH SERVICE, U.S. DEPARTMENT OF AGRICULTURE, DATED AUGUST 1, 1985, WITH REPLY OF SEPTEMBER 6, 1985

GLENN ENGLISH, OKLAHOMA, CHAIRMAN

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STEPHEN L. NEAL, NORTH CAROLINA
ROBERT E. WISE, JR., WEST VIRGINIA
EDOLPHUS TOWNS, NEW YORK
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THOMAS N. KINDNESS, OHIO
JIM LIGHTFOOT, IOWA
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NINETY-NINTH CONGRESS
Congress of the United States
House of Representatives
GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE
SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
B-349-C RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

August 1, 1985

Mr. Wayne Rasmussen
Economic Research Service
U.S. Department of Agriculture
Washington, D. C. 20250

Dear Mr. Rasmussen:

I want to express my personal appreciation for the help you gave the subcommittee at the July 15 hearing. Your statement and answers to questions gave us a solid base for understanding how agricultural financing reached its current structure.

Upon reflection, I believe we need to ask you for one more portion of the history of the Farm Credit system. I would appreciate your responding in writing so that it may be included in the record of the hearing.

Why was it decided that the federal land bank structure, and later that of the intermediate credit bank, would be decentralized so that there would be more than a single bank for each? Why was it decided that there would be a central bank for cooperatives as well as the district banks, and why not the same structure for the land and intermediate credit banks? Was there ever consideration for a combination of those functions so there would be one credit bank system for land, intermediate credit, and cooperatives? And finally, why were 12 districts established rather than some other number?

Again, my thanks for the subcommittee for your help. I am looking forward to reading your reply to the new questions.

Sincerely,

Glenn English
Chairman

United States
Department of
Agriculture

Economic
Research
Service

Washington, D.C.
20250

September 6, 1985

Honorable Glenn English
House of Representatives
Washington, D.C. 20515

Dear Mr. English:

Thank you for your recent letter regarding my testimony at the July 15 hearing.

In response to your question as to why the farm credit system was decentralized, I have reviewed many of the relevant hearings, the Congressional Record, and accounts by historians. The results of this review are given in the enclosed paper on decentralization versus centralization. I hope that it meets your needs.

Sincerely,

Wayne D. Rasmussen

WAYNE D. RASMUSSEN
Chief
Agricultural History Branch

Enclosure

Decentralization vs. Centralization in Federal Agricultural Credit Programs

Summary. A review of hearings, the Congressional Record, and historical accounts indicates three or four key points regarding the structures of the federal land banks and the intermediate credit banks. First, the structure of the federal land banks system was based upon that of the federal reserve system and the structure of the intermediate credit banks in turn was based upon that of the land banks. Second, many of the proponents of the land banks saw them as a strong future force for agricultural cooperation. Third, the structure of the land banks drew upon the German example, with its decentralized system. Finally, the idea was controversial and was opposed both by some banking interests and by those who opposed centralization of authority in Washington. In order to appeal to the first group, provision was made for a dual system of federal land banks and joint-stock land banks, which in itself limited strong central control. The provisions for decentralization of the land banks and, in theory, for eventual control by the borrowers, appealed to those opposed to increased controls by Washington.

The federal reserve and the land bank systems. In 1924, W. Stull Holt in his book, The Federal Farm Loan Bureau, still the best history of the origins of the land bank system, wrote: "The agricultural credit system, created by the Federal Farm Loan Act, was modeled upon the federal reserve system in its general outline as well as in many details. Corresponding to the Federal Reserve Board at the head of the federal reserve system was the Federal Farm Loan Board with much greater control over the new system. The federal land banks occupy a position analagous to that of the federal reserve banks. The national farm loan associations of the agricultural credit system are to it what the individual member banks are to the federal reserve system. The joint stock land banks present a structural difference, but otherwise the outlines of the two systems are almost identical."

Another respected historian of federal farm policies, Murray Benedict, has written that the Federal Farm Loan Act as passed drew upon the Federal Reserve Act as a model. In the many hearings on farm credit in 1914, 1915, and 1916, repeated references are made to the Federal Reserve Act and the need to make similar credit facilities available to farmers. In his first message to Congress President Woodrow Wilson strongly endorsed the pending Federal Reserve Act but added: "I present to you... the urgent necessity that special provision be made also for financing the credit needed by the farmers of the country."

The land banks and agricultural cooperation. The official historian of the farm credit system wrote in 1976: "Today, it is a generally accepted principle that the Farm Credit System should be run by farmers and that the policy and operating decisions should be made as close to home--on the firing line--as possible.... Congress, in passing the original Federal Farm Loan Act in 1916, made it quite clear that it expected the Federal Land Banks and the Federal Land Bank Associations to become a cooperative credit system in which farmers would have the responsibility of organizing and operating their local associations, and in owning and having a voice in running their district Federal Land Banks."

The law itself, as explained in the Congressional Record for 1916, provided that loans for the first 12 months were to be made exclusively through local national farm-loan associations composed of borrowers. The purpose was to encourage the formation of cooperative credit associations.

While the system is still spoken of as a "user-owned and controlled cooperative" with good reason, it never became what its cooperative sponsors had hoped. The cooperative associations of borrowers never were able to take control of the federal land banks and in 1923 the law was changed to make this impossible. Holt wrote that the reason was: "It had soon become apparent that despite the expressed intention and expectations of the creators of the system, the cooperative features of the system never materialized. Not only did the system fail to induce the farmers to cooperate for other purposes, but the system itself was a failure as a cooperative enterprise." One of the original members of Federal Farm Loan Board, Herbert Quick, in testimony before the House Committee on Banking and Currency in 1923, said: "The rule in the farm loan association is that they organize, they hold their meetings and they get their money, and when they do that they are done; they never have another meeting at which there is a quorum."

European models. Both a Presidential and an influential private commission organized by the Southern Commercial Congress made careful studies of European land banks, especially those of Germany and Ireland. The two commissions made a joint report in 1913 which emphasized the cooperative nature of the European credit associations and the need for local responsibility and local control. The report stated: "One of the great lessons learned in Europe is that in the long run farmers succeed best when they help themselves. Whenever they become dependent on the Government they keep looking to the Government for more aid." This report had a strong influence in setting up a decentralized system that in time could be controlled by the farmers themselves.

Controversy. Although the Farm Credit Administration is virtually unanimously accepted by agricultural, banking, and political forces today as an institution of value to the nation, its predecessor agencies were born in controversy. The Country Life Commission drew attention to the need for an effective farm credit system in its 1908 report, but the Federal Farm Loan Act did not become law until 1916. During the intervening years, hearings, commission reports, resolutions by farm organizations, and speeches by Congressmen and Senators kept the issue alive. However, skepticism on the part of some farm groups, opposition from some banking interests, and fear of greater centralization of power in Washington by some political groups had to be overcome. This process was aided by passage of the Federal Reserve Act and with the decentralized structure proposed.

Because banking groups were not particularly interested in longterm farm mortgage loans while farmers saw longterm credit as their most pressing need, the decision was made to establish a system for longterm farm mortgage loans, omitting intermediate and short-term loans which bankers were more interested in providing.

By 1921, agriculture was in a major depression, the farm bloc had been established, and banks were becoming hesitant to make intermediate or even short-term loans to farmers. Farm organizations called for a federal system of short-term credit. Congressional commissions supported the concept, with some proposals to make the intermediate credit system part of the federal land banks. It was proposed at first to merge the new institutions into the federal land banks and to have the assets of each jointly liable. This was strenuously opposed by the persons interested in the mortgage credit features of the federal farm loan system. They felt this might mean the end of the system if the depression continued. As a result the Intermediate Credit Banks were established separately.

The agricultural depression continued to worsen. Congress passed the McNary-Haugen bills in 1926 and 1927, only to have them vetoed by President Coolidge. In 1929, following recommendations of President Hoover, Congress established the Federal Farm Board. One of its goals was to encourage farmers to market through cooperatives. The Board made loans to many cooperatives to help them hold their members' products for higher prices, but the ever-worsening depression doomed the effort to failure. When the Farm Credit Administration was established by Congress on June 16, 1933, it was assigned the assets, liabilities, and responsibilities of the Farm Board, which included services to cooperatives. The law provided for 12 district banks for cooperatives and a central bank for cooperatives, a goal sought by cooperative leaders who feared their concerns would be given a back seat. The plan included a central bank because the program was geared to operate from the top down rather than from the bottom up as in the case of the land and intermediate credit acts.

In essence, while each time a new set of banks was added to the system there were proposals for consolidation, in each case an affected group was able to forestall such consolidation. This was possible, at least in part, because each of the new sets of banks was established in what appeared to be a period of economic crisis for American agriculture.

APPENDIX 2.—"FARMERS AT THE CROSSROADS—AN AMERICAN DILEMMA," PAPER PRESENTED BY JOHN W. GOODWIN, VICE PRESIDENT FOR AGRICULTURE, UNIVERSITY OF ARKANSAS, AT THE SOUTHERN GOVERNORS' CONFERENCE, JULY 1984

FARMERS AT THE CROSSROADS--AN AMERICAN DILEMMA[1]

John W. Goodwin
Vice President for Agriculture
University of Arkansas

The hundred year theme of this conference is an ambitious undertaking. It reflects a consciousness of the reality that where we are is a product of where we have been and that getting to where we want to be is constrained to some extent by where we are. This historian's view of the world is a relevant view and the designers of this program are to be commended for looking at both the past and the future. The 50-year view of the past considers the career lives of most of the people who are currently leaving the labor force--the group to whom we are indebted for the world's most elevated standard of living. The 50-year view of the future encompasses the career lives of the people who are currently just entering the work force--the group upon whom we must depend to solve some of the world's most intractable problems. Many of the triumphs of the past 50 years have been centered in our region and many of the challenges of the future must be met in our region.

The world of agriculture is one in which the Southern region historically has been and is destined to continue to be a central influence. More important, agriculture has been and must continue to be a central focus of the Southern existence. Not only is agriculture our largest single industry, it is our largest single growth industry and it is the industry upon which we depend for the vast majority of our regional "balance of payments". It is the foundation upon which we must depend as a base for much of our economic growth and development.

But central as agriculture may be to the entire Southern experience, a fifty-year view of the past is unnecessary in the case of farming, and a fifty-year view of the future may well be irrelevant. Dramatic changes during the past ten to fifteen years have created an environment within which farmers are currently experiencing seriously depressed economic circumstances. Indeed, those circumstances are so very difficult that the next five years may well predetermine the direction not only of agriculture but also of the entire economy for the ensuing fifty years. Because agriculture is so very central in the economies of both the southern and midwestern regions, this circumstance is particularly ominous in the case of our sections of the country.

Today, farmers represent about 3 percent of our total work force. Yet an estimated twenty percent of the total employment in our society rests upon the activities of that three percent. When one considers the employment in the manufacture of the farm inputs such as machinery, fuel, chemicals, fertilizer and pharmaceuticals, and that in the processing, transportation, storage and distributional areas, it becomes apparent that the economic impact of farming far transcends the farm gate.

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[1] Paper Invited for Presentation at the Southern Governors' Conference Williamsburg, Va., July 9-11, 1984.

This economic impact of the farm sector is obviously not evenly distributed among the regions across the country. In the Northeast, the economic impact of agriculture is less than a fourth the relative level observed for the nation at large. In the Delta States, by way of comparison, the economic impact of agriculture is almost double the level observed for the nation as a whole, and eight times as great as in the Northeast.

In my home state of Arkansas, it is estimated that just over half the total economic well being rests directly upon farming, even though gross farm sales amount to only 21 percent of total personal income. A dramatic illustration of the critical economic importance of agriculture in the South can be gleaned by comparing the circumstances of 1980 and 1981 in the state of Arkansas.

In the summer of 1980, the national economy was in relatively good condition, despite a rate of inflation that was above 10 percent. Unemployment was about 6 percent. Total utilization of plant capacity was up around 85 percent. The average weekly hours per worker showed considerable overtime pay was being earned. Prime interest rates were about 9-10 percent. In short, most of the indicators of economic activity were fairly positive. But beginning in June of 1980, we had a very serious drought. As a result, Arkansas farmers harvested about two-thirds of a normal crop in the late summer and fall of 1980. By October, the flow of state tax collections had declined to the point that it was necessary to reduce all programs of state government by 10 percent. This meant education, roads, human services, police protection--in short every Arkansan--was impacted by the drought that devastated Arkansas agriculture despite the fact of a relatively robust national economy.

By late 1981, the national economy was sicker than a poisoned pup. Unemployment was shaking hands with 11 percent. The utilization of factory capacity was below 70 percent. The average work week--for those who had jobs--had declined to about 38-39 hours. Prime interest rates had risen above 20 percent and then receded to about 17 percent. In short, the national economy was pretty bleak. But in Arkansas in 1981, we had had a normal crop. And while we had our economic problems along with the rest of the country, a short-fall in state tax revenue flows was not among them. The fact that we had had a normal crop in 1981 maintained enough economic activity to stabilize the state revenue collections in Arkansas despite a very ill national economy.

The fact that so much of the South is so very dependent upon the economic health of agriculture is one reason that most of the Southern states have been uncommonly attentive to the needs of the agricultural sector. Also, the tradition conscious South recognizes the reality that never in the history of man has there been a major social or political upheaval in a society that had a prosperous agriculture. And therein, Gentlemen, lies our dilemma.

The American farmer is in trouble--very serious trouble. And when farmers are in trouble, the non-farm sector--particularly in the South--can't be far behind. The demise of large numbers of farm machinery dealerships during the early 1980's is a case in point. The present ill health of the entire fertilizer industry is another. Look at any community of less than 10,000 people in your home state where that community is an hour's drive from a metropolitan area. I would bet that at least 20 percent of the business buildings are vacant.

Recognizing the very serious difficulties facing the farmer and the tendency for those difficulties to be replicated in the rest of the economy is only a beginning point for dealing with the problem. If this problem is to be addressed--not just in the interest of farmers, but indeed in the interest of every American--we must first understand how and from what source the problem evolved. An examination of federal government policy adjustments that have come in conflict with other federal policies can be very revealing.

The United States has for at least 50 years maintained a de facto cheap food policy even though few Americans are fully aware of the benefits they derive from it. In what other society does agriculture provide the abundance for the domestic populace to continuously overeat for less than 17 percent of its real income and still provide enough further abundance to generate up to 40 percent of the nation's foreign exchange? I have only rarely heard any public official even admit the existence of a cheap food policy. I have never heard a public official publicly take a position favoring a cheap food policy. But watch the response of public officials when food prices rise. You get export embargoes on soybeans and wheat. And you get federal freezes on retail beef prices. Ladies and gentlemen, our cheap food policy is and long has been a fact.

I have no particular quarrel with a cheap food policy, provided we have other policies that allow farmers to participate in the abundance they provide. Indeed, if the rest of our public policy does not allow the farmers to participate, then farmers cannot survive financially and the cheap food policy must collapse of its own weight. Since 1973, there has been a series of public policy decisions that have probably increased the financial risk in the American farm sector by at least a thousand percent. This increased risk is at the root of much of the financial difficulty in farming today.

Very soon after the presidential inauguration in 1973, the U.S. abandoned its 40-year policy of a fixed-value, gold-redeemable dollar and moved to a variable dollar valued in the international currency markets. This adjustment was probably essential in view of the negative balance of payments that had been experienced over the previous several years, but it had the effect of unleashing the forces of economic inflation. The resulting de facto devaluation of the dollar cheapened American products--particularly American farm products--in terms of other currencies, pulling enormous volumes of wheat, corn and soybeans out of the U.S., causing dramatic increases in the prices of the products derived from these commodities. At the same time, the devalued dollar bought less in the way of French wines, Scotch whiskey, Japanese electronics and German automobiles. Thus, the resulting upward pressure on domestic prices for virtually everything was enormous. The annual rate of inflation soared from about 5.5 percent before devaluation to about 11 percent in 1974.

The administration, predictably, descended to the occasion. The Secretary of Agriculture raced about the country urging the plowing and planting of the very fragile lands that had been returned to permanent cover during the 1960's, thus enormously increasing agricultural productive capacity. An Embargo was placed on the export of soybeans, thus causing the Japanese to make heavy investment to bring Brazil and Argentina into major soybean production. An embargo was threatened on the export of wheat, with the milling and baking industries threatening consumers with dollar-per-loaf bread prices. Beef prices were frozen at retail, with the result that cattle prices declined by two-thirds within seven months following the lifting of the price freeze. Wheat prices declined by half from January of 1974 to June of that year, and soybean prices dropped by 40 percent by harvest time.

While all of this was going on, the OPEC States--lead by Iran--expressed their displeasure with their inability to get credit for arms purchases by more than doubling the price for crude oil, thus further fueling the inflationary pressure. The cost of farm inputs increased rapidly while the prices for farm products that had risen during 1973 fell in 1974 to levels that caused farm products to have less purchasing power than before the devaluation of the dollar.

An attendant problem that created at least as much difficulty for the farm sector was the instability that was introduced. During the 1973-77 period, wheat markets for example averaged a price move either up or down every seven months that was as great as or greater than the actual total wheat price during 1972. There was no way farmers could protect themselves from this roller-coaster effect when the prices for farm inputs such as fertilizer, fuel and farm machinery were moving steadily and rapidly upward.

By 1976-77, the farm economy was in shambles. But there was more to come. During the 1969-1976 period, the National debt had doubled. That is, the Nixon-Ford Administration had incurred more budget deficits than all previous presidents combined. The federal government--by its own action--had found itself in much the same position as farmers. Income was running much below expenses and much of the reason was the run-away inflation which caused the forward purchasing in the private sector that reduced tax revenue flows while at the same time greatly increasing government costs.

In an effort to begin to control inflation, the Federal Reserve Board during 1978-79 began to turn the screws on monetary policy, generating rapid escalation in interest costs. While this did dampen the demand for items such as automobiles, consumer durables, vacations and virtually all other discretionary purchases, it also dramatically increased the cost of production in the heavily leveraged farming sector.

The subsequent deregulation of financial institutions during the early 1980's exacerbated this problem by removing the financial insulation agriculture had had since the conscious--but unstated--implementation of the cheap food policy during the early 1930's. Agricultural investments that were sound at interest rates below 10 percent per annum were no longer sound at 15-20 percent. Land values began to deteriorate, falling by as much as 40 percent in some of the more productive agricultural areas. The resulting reductions in net worth of farmers made the financing of farming operations more difficult--and hence more costly.

And then came the era of $200 billion federal deficits. The necessity for funding these deficits through financial markets kept prime interest rates above the double-digit level despite the fact that very austere monetary policy had finally brought inflation rates down to just about the levels observed immediately prior to the devaluation of the dollar in 1973. It is ironic to realize that a rate of inflation that was viewed as very troublesome in 1972-73 is greeted and embraced as a huge success ten years later.

The current level of the federal deficit--which promises to again double the national debt during the four years of this administration--is creating additional problems for the farm economy in two ways. First, it holds interest rates and hence the cost of farm production much higher than they should be. This is because of the constant inflationary threat resulting from the huge deficit. Second, the high interest rates make American financial markets very attractive to overseas investors. The only way those investors can participate in U.S. financial markets is to bid for dollars. Five of every seven dollars financing the federal deficit last year were Euro dollars. The resulting strength in the value of the dollar relative to other currencies makes U.S. products more expensive in international markets, thus reducing the volume of export sales, and further depressing domestic prices for farm commodities. The federal deficit is thus causing even further deterioration in the U.S. farm economy.

It is interesting--and alarming--that the U.S. federal deficit on a per-capita basis is very close to the deficit in Argentina. There are two essential differences. First, we have had a deficit of this relative magnitude for only three years as compared with more than two decades in Argentina. Second, the current U.S. deficit is a smaller proportion of gross national product than is the Argentine case. But I spent the first two weeks of April this year in Argentina. And the economic basket case I saw in the Argentine farm economy during that two weeks scared the absolute pluperfect hell out of me when I realized the parallels in the current U.S. situation and the Argentine experience. Another parallel between the two is the very tender concern for the military and the virtual blank check provided to the military leadership.

Where has all this rather depressing litany of woe induced by redirection of federal policy brought the American farmer? In a nutshell, the current situation is that despite the already substantial deterioration in land values since 1980, agricultural assets are badly overvalued when compared with the projected ability of those assets to generate returns. Recent tightening of Farmers Home Administration loan regulations have further aggravated the problem, but more ominously, the changes in these regulations may signal a federal intent to let the agricultural economic disaster run its course. There are very disturbing indications that the financial regulatory authorities are committed to eliminating anything other than cash flow financing of farming operations. The implications for the general economy and particularly for the Southern economy are really pretty grim! Further reductions in the value of agricultural assets invite corporate and foreign investments in those assets. And when all decisions regarding the production and pricing of food are made by Boards of Directors, the Cheap Food Policy is a thing of the past.

What have the states been doing to address the problems of farmers while all of this has been going on? The facts are most of the southern states have individually been doing about all they could have done as individual states. Since most of the problems have been induced at the national and international levels, the ultimate solutions must be found at those levels. The one thing the states can do is to provide resources for discovering ways in which the cost of farm production can be held down through increases in productivity. Since farm prices are determined at the national and international level, the only portion of the frightening farm profits picture subject to state action is the cost management side through the funding of agricultural research and technology transfer.

Ten of the thirteen states in the Southern region--when both the local importance of agriculture and the ability to pay are considered--have provided resources for these efforts at a rate substantially in excess of the national average. Because of widespread dependence upon agriculture across the south, the Southern states really have had no choice but to increase this effort. But even here, the feds have not done their part. While total state investment in scientific investigation in agriculture across the U.S. has increased by 65 percent since 1967 even after adjustment for inflation, the federal effort has not kept up with inflation despite the fact that changes in federal policy have created much of the problem.

Investments in scientific discovery and technology transfer are of critical importance to the long term effectiveness of American agriculture. If the states that have accepted a responsibility to increase the states efforts would work together to gain a similar commitment from the federal partner, it could be very helpful in insuring that effectiveness. It would also be appropriate in view of the reality that almost 40 percent of the benefits of those efforts ultimately accrue to the heavily populated Northeastern states that pay only ten percent of the bill. In this fashion the very exciting benefits potentially available from cellular biology, gene splicing and genetic engineering can be accelerated.

But it should be pointed out that the real benefits from these exciting scientific breakthroughs even under the most favorable scenario are at least twenty years in the future. Our current situation is such that we can't wait twenty years to improve the economic situation of farmers. Enormous restructuring of production agriculture has already occurred. The largest single holder of agricultural land in my state today is a major insurance company, and virtually all of it has been acquired in the past six years. Large blocks of agricultural lands are being acquired by European and Japanese interests. Some effort at the federal level must be initiated if we are to retain the farm owner-operator structure that has allowed the productivity of American agriculture to be the envy of the world. The leadership to generate that federal effort can come only from the states.

When it is realized that the Continental Illinois Bank was deemed to be too large an enterprise to be allowed to fail and that the public interest was best served by maintaining that Bank's solvency, it begins to put things into perspective. Continental Illinois assets are estimated at $41-43 billion. When you consider that American agriculture is a trillion--that is a thousand billion--dollar industry more than 20 times the size of Continental Illinois, can it be in the public interest to allow this industry that is the basis for 20 percent of our total employment to fail? People such as those in this room must take the leadership to avoid this catastrophic potential. The total wreckage of small town and rural America is too high a price to pay.

APPENDIX 3.—"PILOT SMALL FARM REHABILITATION PROGRAM—ALABAMA," REPORT BY ERROL G. RHODEN, CARVER RESEARCH FOUNDATION OF TUSKEGEE UNIVERSITY, TUSKEGEE, ALABAMA

PILOT SMALL FARM REHABILITATION PROGRAM - ALABAMA

(Funded by Farmers Home Administration)

Report Presented to

THE SUBCOMMITTEE ON
GOVERNMENT INFORMATION, JUSTICE, AND AGRICULTURE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES
NINETY-NINTH CONGRESS
CONGRESS OF THE UNITED STATES

by

Errol G. Rhoden, Ph.D.
Director and Coordinator
Small Farm Project

GEORGE WASHINGTON CARVER AGRICULTURAL EXPERIMENT STATION
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TUSKEGEE UNIVERSITY
TUSKEGEE, ALABAMA
September 27, 1985

I. INTRODUCTION

I am Errol G. Rhoden, Director and Coordinator of the Small Farm Project at the George Washington Carver Agricultural Experiment Station of Tuskegee University, Alabama. The Experiment Station is part of the Carver Research Foundation, established by Dr. George Washington Carver in 1940. Thank you for inviting me to participate in the hearing on "Black Farmers and FmHA Policies". As a child of a limited resource farmer, I think that the problems and aspirations of small farmers everywhere are similar. I trust that this hearing will be the beginning of a long range effort to reverse the trend that small farming is taking.

In June, 1985, Tuskegee University started the Small Farm Rehabilitation Program, with the assistance of a $372,896 grant from the Farmers Home Administration (FmHA). This intensive program, carried out by a multidisciplinary team, is bringing improved farm management skills to a representative group of limited resource farmers in Alabama. The project is in the process of identifying, developing, and evaluating key elements of farm management. These include the development of custom farm plans, specific cropping and livestock systems, alternative marketing strategies, and good record keeping systems. The project benefits from linkage with Tuskegee University's well established farming systems research program. By the end of the program, we hope that at least a start will be made towards a more efficient, more profitable, small farm.

The numbers of small and limited resource family farms have been declining at an alarming rate. This is particularly true of the black limited resource farmer. Faced with the prospect of not making an adequate living at farming, many rural blacks continue the migration to the urban areas. However, agriculture -- particularly the small farm -- offers the black community opportunities that are difficult to find elsewhere in American society. These would include land ownership, influence in community affairs, and -- for certain educational groups -- more independence and security than low-paying menial work. At Tuskegee, we do not believe that the small farm is an anachronism. The Report of the 1984 Tuskegee University Professional Agricultural Workers Conference showed that in such diverse states as Minnesota, Maryland, and Alabama, small and medium size farmers have demonstrated not only their profitability, but have avoided the problems that are driving many large-scale grain and livestock operators into bankruptcy.*

At the same time, small farmers have numerous serious problems. Tuskegee University has started this program because we believe these problems are manageable. We will consider the program successful if some participants after eighteen months can operate a farming business independently, and produce income necessary to service debt, operations, and maintain a reasonable standard of living. Training and technical support of this type are long-term needs that will require programs longer than this eighteen month's effort.

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*Williams, et. al., Strategy for Survival of Small Farmers -- International Implications, Part II, Tuskegee University, 1985.

II. TODAY'S SMALL FARM

Approximately 70 percent of the farming communities throughout the United States and more than 80 percent of Southern farms are considered small, both by gross income and total land mass. The United States Department of Agriculture (USDA) broadly defines a small farmer as one whose gross income is $20,000 or less per year. Tuskegee University defines a small farmer as one who derives most of his livelihood from the farm, whose total farming land base is 200 acres or less, and whose gross annual income, over a three-year period, is less than $20,000 per year. Based on the Tuskegee University definition, 85 percent of the farms in the South would be considered small. While these farmers are clearly the largest segment of the farming community, they produce only about 20 percent of the total agricultural commodities in the South. These farmers generally have low incomes, lack educational and professional training, and are usually 50 years of age or older. It is for these reasons that they have been left out of the agricultural mainstream.

Looking specifically at the black farming population, we see even greater evidence of decline. A USDA study done in 1980 reviewed why blacks were leaving the farm. It showed that most black farmers in the South grew cotton. Therefore, a decline in Southern cotton production resulted in a decline in income. The erosion and depletion of good farmland in Georgia and South Carolina had similar effects. These production declines hurt sharecroppers most.

The farming community served by Tuskegee's Small Farm and Extension programs reflects these regional trends. Alabama has over 48,000 farms of all sizes. Most of these farms fall into the category of small farms by any definition: 77 percent have $20,000 or less in annual gross sales, while 87 percent have less than $40,000 in sales (1982 Census of Agriculture). Those farmers having sales of less than $2,500 comprised greater than 51 percent of the farmers selling $20,000 or less. Blacks and other minorities are concentrated in the small farm category. Eighty-eight percent of black farmers have less than $10,000 in gross income.

Tables 1, 2, and 3 give data for Alabama's small farmers.

III. THE FmHA/TUSKEGEE UNIVERSITY PILOT PROJECT

A. Relationship to the Existing Small Farm Research at Tuskegee

For more than two decades Tuskegee University has been conducting research on a small farm system capable of supporting a small family on 25 acres. This system, initially developed by Dr. Booker T. Whatley, is based on selected high value cash

TABLE 1

ALABAMA LAND IN FARMS ACCORDING TO USE

(SALES LESS THAN $20,000)

Item		Total Farming and other occupations	Farming						
			Total	Age of operator (years)					
				Under 25	25 to 34	35 to 44	45 to 54	55 to 64	Over 65
Total cropland-----------------	farms--	32 167	9 112	150	539	821	1 224	2 507	3,871
	acres--	1 754 709	624 762	10 033	43 276	63 506	92 188	165 023	250,736
Harvested cropland-----------	farms--	24 505	7 509	137	453	692	1 020	2 112	3,095
	acres--	656 685	260 049	6 605	23 499	32 757	41 956	72 282	82,950
Farms by acres harvested:									
1 to 9 acres-----------------		7 740	1 846	18	71	118	232	504	4,951
10 to 29 acres-----------------		9 697	2 851	52	134	230	358	822	1,255
30 to 49 acres-----------------		3 341	1 187	21	71	121	160	335	479
50 to 99 acres-----------------		2 593	1 034	22	107	120	157	297	331
100 to 199 acres-----------------		962	483	21	57	82	78	135	110
200 to 499 acres-----------------		170	107	3	12	21	35	19	17
500 acres or more-----------------		2	1	-	1	-	-	-	-

Source: Census of Agriculture, 1982

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TABLE 2

TENURE AND RACE OF OPERATORS IN ALABAMA
(SALES LESS THAN $20,000)

	Total Farming and other occupations	Farming						
		Total	Age of operator (years)					
			Under 25	25 to 34	35 to 44	45 to 54	55 to 64	Over 65
All operators----------------	37 152	10 152	165	621	934	1 390	2 754	4 288
Full owners----------------	27 676	7 385	57	294	550	946	2 028	3 510
Part owners----------------	7 422	2 123	23	192	300	356	604	648
Tenants--------------------	2 318	644	85	135	84	88	122	150
White----------------------	34 771	9 281	158	580	864	1 282	2 557	3 840
Full owners--------------	25 914	6 858	53	277	513	892	1 920	3 203
Part owners--------------	6 815	1 879	23	177	276	317	538	828
Tenants------------------	2 042	544	82	126	75	73	99	89
Black and other races------	2 645	871	7	41	70	108	197	448
Full owners--------------	1 762	527	4	17	37	54	108	307
Part owners--------------	607	244	-	15	24	39	66	100
Tenants------------------	276	100	3	9	9	15	23	41

Source: Census of Agriculture, 1982

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TABLE 3

MARKET VALUE OF AGRICULTURAL PRODUCTS SOLD
1982, 1978, and 1974
(SMALL ALABAMA FARMS)

	1982	1978	1974
Value of sales:			
Less than $2,500------ farms--	19 246	17 918	28 361
$2,500 to $,4999------ farms--	7 916	8 782	6 853
$5,000 to $7,499------ farms--	3 926	4 613	3 802
$7,500 to $9,999------ farms--	2 174	2 557	2 278
$10,000 to $14,999---- farms--	2 611	3 094	2 896
$15,000 to $19,999---- farms--	1 543	1 908	1 621
Total	37 416	38 872	45 811

Source: Census of Agriculture, 1982

crops, a reasonably good growing season, and adequate marketing outlets. This diversification coupled with year-round cash flow would reduce the dependence of the farmer on operating loans. This system also lends itself to year-round full employment. In order to reduce and spread the available labor over the enterprises chosen, the farmers must not compete with each other for that labor at a particular time.

To alleviate some labor problems, the plan calls for a pick-your-own sale operation. Pick-your-own also makes the farmer's products more competitive by selling at a lower price. With some innovation, the farmer will be able to address the needs of his clientele and have an economically viable operation. To this end Tuskegee University will continue to assist and develop technology for small farmers and will work with other farmers who continue to produce crops that are traditionally grown by large operators.

More recently, it has become apparent that if the plight of small farmers is to be improved, the Tuskegee University Small Farm System must be modified to include a larger package of crops, alternative marketing strategies, incorporation of high value animal components and improved lending and pay-back options. It has also become apparent that greater attention should be given to the sociological implications of such a farming system for black farmers. Furthermore, the entire farming system must be considered from the total family perspective. This will in turn help to encourage children of farmers to consider farming as a professional career.

The Small Farm System is, therefore, proposed as a solution to the problems and needs of the small farmer. When this program is implemented, it will provide continuity and economic stability to the small farmer. It may also reverse the trend of blacks and other minorities to shy away from what could be satisfying and profitable agricultural enterprises.

B. Objectives of the New Small Farm Rehabilitation Program

The overall objective of this project is to assist small farmers, particularly black farmers, to improve their management and record keeping practices and reduce production costs, while at the same time increasing production efficiency and output through proper crop and animal husbandry practices.

The specific objective and major emphasis of this pilot study will focus on the development of an individualized plan of operation for each small farm participant, and the establishment of intensive supervision of each participant. Although the initial number of participants is small, the models developed will have wide application and a broad range of beneficiaries.

C. Implementation

In order to achieve these objectives Tuskegee University received a grant from FmHA for $372,896 in April 1985 to pursue a multidisciplinary approach to problems affecting the small farmer. This team of scientists includes:

1. Agricultural Economist
2. Agronomist/Soil Scientist
3. Animal Scientist
4. Horticulturist/Plant Scientist
5. Rural Sociologist/Anthropologist

Candidates for each position were interviewed and the team was put together by June, 1985. This group took to the job a wealth of knowledge. Weekly meetings enabled the team to formulate plans of action for the next year. Each person submitted an assessment of the program which was then combined to fit the project.

There are 404 minority farmers in 59 counties participating in Farmers Home Administration programs in Alabama. After a meeting with Tuskegee University representatives, the Alabama director of FmHA, Mr. Dale Richey, sent a directive to each county supervisor asking for the number of minority farmers that could benefit from the Pilot Small Farm Rehabilitation Program. The county supervisors then identified 119 farmers from 38 counties whom they thought the program would help (Table 4).

Thirty-one farmers consented to participate in the initial phase of the program. Additional farmers have been added and will continue to enroll throughout the life of the project. The participation of each farmer was voluntary and was based on the recommendations of each county supervisor. Because each

TABLE 4. MINORITY FARMERS IN ALABAMA PARTICIPATING IN THE FmHA PROGRAM

COUNTY	TOTAL	NUMBER THAT NEED HELP	PARTICIPANTS	COUNTY	TOTAL	NUMBER THAT NEED HELP	PARTICIPANTS
Autauga	13	3		Houston	16	3	
Baldwin	3	1		Jackson	1	0	
Barbour	8	2	4	Jefferson	0	0	
Bibb	0	0		Lamar	3	0	
Blount	0	0		Lauderdale	7	0	
Bullock	17	7	4	Lawrence	10	3	
Butler	17	2	3	Lee	4	1	
Calhoun	9	6		Limestone	1	0	
Chambers	3	1		Lowndes	15	4	4
Cherokee	9	5		Macon	29	10	4
Chilton	4	0		Madison	14	7	
Choctaw	0	0		Marengo	22	5	
Clarke	0	0		Marion	1	0	
Clay	0	0		Marshall	0	0	
Cleburne	0	0		Mobile	2	1	
Coffee	5	2		Monroe	8	5	
Colbert	3	0		Montgomery	11	1	2
Conecuh	7	0		Morgan	4	0	
Coosa	0	0		Perry	0	0	
Covington	3	1		Pickens	9	1	
Crenshaw	11	4	4	Pike	3	2	2
Cullman	0	0		Randolph	13	3	
Dale	2	0		Russell	0	0	
Dallas	18	3		St. Clair	0	0	
DeKalb	1	0		Shelby	5	5	
Elmore	6	1		Sumter	19	9	
Escambia	4	3		Talladega	7	1	
Etowah	0	0		Tallapoosa	0	3	
Fayette	0	0		Tuscaloosa	2	1	
Franklin	3	0		Walker	0	0	
Geneva	4	1		Washington	2	2	
Greene	4	1		Wilcox	20	4	
Hale	12	1		Winston	0	0	
Henry	9	4	4				
Total					404	119	31

Source: Alabama FmHA Office 1985

.388.

farmer in the program has to be considered individually and supervised intensively, the project has focussed on participants in counties close to Tuskegee University. Such an approach will save considerable travel time. Also, these counties had a large number of minority farmers with limited education and a large percentage of farmers that the State FmHA thought could be helped.

D. Achievements to Date

Initial contact with farmers involved in the program was made June 20, 1985. This contact gave the project officers the opportunity to meet with the farmers and get first hand knowledge of some of the problems they encountered. This meeting also enabled the Tuskegee University project team to set the forum under which the program would operate. The team also explained to the farmers that team members were not employees of FmHA and that subsequent visits would not include FmHA personnel. The farmers were advised that from time to time the team would be making simple recommendations in order to improve management or profitability. However, any recommendations that are made involving capital expenditure will be reported to FmHA.

Based on the team's visits to the farms, the following were apparent:

- Farmers appeared reluctant to discuss most of their operations in the presence of the county supervisor.
- There exists a critical need for proper record keeping.

- It was clear that loans were made without technical advice, and collection, therefore, became the primary responsibility of FmHA.

- Either the various goverrment agencies were unwilling to deal with many of the problems encountered by the small farmers, or they lacked the ability to do so.

In order to help limited resource farmers, we must identify all their available resources and make inventories for each farmer. Special attention is to be given to resources that limit the farmer or impede his developing to his full potential. Considerations are being given both to financial and social problems facing the farmer and his family. To this end, the team developed and administered three surveys to the participants (Appendix A). Each participant was visited by a team of senior project personnel and interviewed. These surveys coupled with visits to the farm enterprises were completed over several visits. The exchange of anecdotal information made the interviews quite time consuming, usually four hours per visit. The results of two of these surveys are summarized below.

1. Economic Survey Results:

   - The crops grown are corn (12 farmers), peanuts (10 farmers), cotton (2 farmers), sorghum (2 farmers), soybeans (4 farmers), vegetables (4 farmers), and livestock (14 farmers).

   - The average area under crop production was 111 acres. Areas ranged from three acres of corn for livestock feed to 514 acres comprising corn, soybeans and peanuts.

   - The farmers' livestock comprised cattle and hogs. The largest farmer had 40 head of cattle and the smallest had three hogs.

- Average sales per annum were just under $20,000 with a wide range starting from under $2,000 to a high of $73,000. Most of the farmers could not verify their total sales because records were partial or totally absent. (Since records of expenses were also lacking, net incomes could not be computed. Two samples showed apparent net income of about $12,000 each. However, neither accounted for interest expenses or depreciation.)

- More than 50 percent of the farmers reported owning land. Average ownership under cultivation or in livestock enterprise was 63 acres. Acreage rented ranged from 2 to 440 acres. Cost of rental ranged from free to $40/acre.

- Farmers marketed their crops or livestock in the traditional manner, through local markets. There is very little contracting. Hedging, storing or other strategies to attempt getting better prices are virtually absent. Crops are sold at harvest. Livestock is sold by weight. Most participants (75 percent) indicated that they would like to try new strategies such as cooperative or contract selling.

Major Problems Voiced by Participants:

- Low prices for produce.
- Lack of storage facilities.
- Lack of new markets.
- Inability to borrow enough money.
- High input costs coupled with low prices.
- High interest rates.
- Discrimination in loan terms.
- Limited access to loans.
- Shortness of loan terms.
- Cash flow shortages.

2. Sociological Survey Results:

A brief summary of the participants involved in the program is presented in Table 5. Currently, all participants in the program are black. They range in age from 33 to 81, with an average age of 53. They have large families, own less land than they rent and have limited education. This pattern is similar to that of the State. The typical black farmer in the program could therefore be referred to as being in his 50s, owning approximately 73 acres of land, renting 147 acres, having nine years of education, and having to work off the farm to supplement his income. These farmers, as is indicated by their educational level, are unable to command high paying jobs outside of farming. With all good intentions they have sought employment in order to reduce their indebtedness to FmHA. Employment off the farm, coupled with his lack of resources, has further placed their production at a lower level. Basic skills such as record keeping, accounting and business management are now being addressed by the project.

E. Action Taken

In order to improve the record keeping and management of these small farms, the agricultural economist has developed a simplified record keeping procedure that is presently being taught to program participants and other FmHA borrowers. (Appendix B). The coordinator of the State FmHA was contacted in late August and informed of the workshops in record keeping.

TABLE 5. CHARACTERISTICS OF PARTICIPANTS BY COUNTY

Variable	Barbour	Bullock	Butler	Crenshaw	Henry	Lowndes	Macon	Montgomery	Pike
Average Age (Yrs)	55.00	55.50	74.50	44.75	58.00	48.00	48.75	50.00	40.00
Number of Children	8	5	7	4	7	12	4	4	5
Average Acreage									
Own	113.75	48.00	100.00	20.00	137.00	39.00	41.50	0	143.00
Rented	104.00	109.00	175.00	125.00	179.00	30.00	37.50	150.00	247.00
Education (Yrs)	9.25	7.50	7.00	10.00	10.30	8.00	12.25	15.50	11.00
Farm Income (Yr)									
Farmer	18,535.00	7,000.00	300.00	6,400.00	3,667.00	18,500.00	18,667.00	0	5,200.00
Spouse	6,300.00	2,600.00	0	5,575.00	2,867.00	1,800.00	14,400.00	19,657.00	9,680.00

Source: George Washington Carver Agricultural Experiment Station, 1985

Letters were then sent to each county supervisor to be distributed to those FmHA borrowers that they thought may need help with record keeping. (See sample letter on next page.) This method gave each farmer at least three weeks to make arrangements to attend. The workshop gave each participant a hands-on experience in posting expenditures and income, making quarterly and annual statements and preparing a statement for each enterprise. This procedure will help those individuals who presently do not have a system of record keeping or who do not understand the system presently used by FmHA. Within the next three months, these farmers should be able to record their expenditures and income. The continuous supervision provided since the implementation of the program will enable them to know which enterprises are losing money.

G. Future Plans for Small Farmers

Since the project has been operating for only six months, a great deal of work has yet to be done. Once a total assessment of the family operation has been made, an individualized custom farm plan will be developed for each farm participant. This plan will involve recommended management practices suitable to the particular farm unit. A program involving a crop/animal mix plan will include a good record keeping system, pesticide usage, and good cultural practices. These will be developed at an early date. Conventional and

Tuskegee Institute
GEORGE WASHINGTON CARVER AGRICULTURAL EXPERIMENT STATION
[illegible]

VOCATIONAL BUILDING, ROOM [illegible]
TUSKEGEE INSTITUTE, ALABAMA [illegible]

[illegible]

A DIVISION OF
CARVER RESEARCH FOUNDATION

September 17, 1985

Dear FmHA Participant:

As a business, farming requires a lot of your time and effort. To make this more rewarding we have to be able to determine where we are using our money. The return that we make on each dollar that is spent will determine if we stay in business or not.

To help you make a choice as to the crops or livestock that you raise, we are planning a set of seminars in your county. The first seminar for Henry County will be held on Friday, 10/11/85 at the Farmers Home Administration Building, 406 Dothan Road from 9:00 a.m. to 12 noon. This seminar will deal with record-keeping and we only ask that you bring the records that you are presently keeping.

This will also give us an opportunity to tell you about the program with FmHA as well as listen to some of the problems that you are facing.

I hope you will make the time to attend this seminar. It will be worthwhile.

Sincerely,

Errol G. Rhoden
Director and Coordinator

EGR/et

alternate marketing strategies will be employed where possible for all farm commodities. Consideration will also be given to commodities produced on the farm that will be consumed by the family.

To make information available to farmers both in and out of the program we have developed leaflets and bulletins. The first two of a planned series are found in Appendix C. Rapid dissemination of information has also been helpful in getting local farmers to sign up for the Alabama Soil Conservation Service cost share funds. Only one of the farmers knew of the program previously. Future activities will expand information dissemination. A major element of this will be a pamphlet entitled "Guidelines to Enterprise Selection on the Small Farm," which is being prepared.

IV. REMAINING NEEDS AND RECOMMENDATIONS

During the last several decades, there has been a continuous shift in the structure of agriculture in the United States towards fewer and larger farms and a decrease in the small farm population. This is mainly due to a lack of research information and technology designed to address the needs of the small farmer. Little attention has been given to such areas as cost of labor, machinery and energy, and suitable marketing strategies for small farmers.

Some of the remaining needs of limited resource farmers are subjective and, therefore, more difficult to quantify than those which have been discussed. Among these are the following:

1. Educational resources
2. Managerial training
3. Training to help them recognize the value of records
4. Improved production practices
5. Improved marketing practices
6. Lower interest rates on loans for farmers
7. Better marketing options and better prices for farm commodities
8. Long-range plans for small farms

It is envisioned that programs associated with the conditions listed above may be significantly reduced by the training, counseling and supervision planned in this pilot project. However, a critical component needed is long-range planning. This pilot project could have far greater impact if kept in place for more than five years. This conclusion is based on the fact that farming and agricultural research based on growing seasons require several seasons for confirmation of results. This is true of the present project. Therefore, it is recommended that this project, "Pilot Small Farm Rehabilitation Program -- Alabama," be extended to five or more years with appropriate funding.

The Pilot Small Farm Rehabilitation Program is providing an opportunity for small and limited resource farmers to utilize their labor and other economic resources more efficiently, resulting in improved farm management and ultimately a better quality of life. Since this is a pilot study, it may well serve as a model for other small farm programs throughout the country. Furthermore, in light of the tremendous economic and social importance of small farms nationally as well as at the state and local levels, the success of this project will greatly enhance the stability of small farms in Alabama and the United States in general.

APPENDIX A

I. Farm Survey - Economics

II. Information Survey - Sociological

III. Recordkeeping Workshop Survey
(Includes Non-Program Participants)

TUSKEGEE UNIVERSITY

FARM SURVEY

NAME: ______________________________ DATE: ____________________

ADDRESS: ____________________________

____

The following questions deal with your farm's performance. Answer to the best of your knowledge. You may refer to your FmHA loan documents.

A. CROPS YOU GREW IN 198___

	CROPS	ACREAGE	PRODUCTION	HOME CONSUMPTION	SALES	IN INVENTORY	AVERAGE/ACRE PER ACRE PRODUCTION	AVERAGE/ACRE RETURNS $
1								
2								
3								
4								
5								
6								
7								
TOTALS								

B. **COSTS** **CROPS**

Variable Costs	1	2	3	4	5
Total Variable					

Fixed Costs	1	2	3	4	5
Equipment					
Insurance					
Total Fixed Costs					
Total Cost					
Returns Above Cost					

C. Livestock You Raised in 198__

	ACREAGE	HEAD	HOME USE	SALES $	SALES OF PRODUCT $	SALES/ACRE
1						
2						
3						
4						
5						
TOTAL						

D. COSTS

Variable Costs	1	2	3	4	5
Total Variable					

Fixed Costs	1	2	3	4	5
Total Fixed Costs					
Total Costs					
Returns Above Cost					

Total Farm Income $__________

Non Farm Income $__________

Total Family Income $__________

E. MARKETING

1. Where do you sell your crops? a)____________________

b)____________________

c)____________________

Where do you sell your livestock? a)____________________

b)____________________

c)____________________

2. When do you market your crops? a)_______________

b)_______________

c)_______________

When do you market your livestock? a)____________

b)____________

c)____________

3. What do you see as your major marketing problems?

a)____

b)____

c)____

d)____

4. Would you be willing to try new marketing strategies?
Yes__________ No__________

5. If yes, check which
a) Contract selling ( )
b) Futures market ( )
c) Cooperative selling ( )
d) Farmer's market ( )
e) Other____________ ( )
f) Other____________ ( )

F. Production Problems (Including Labor Problems)

1. What do you see as your major production problems?

a) Labor______________________________________

b) ____

c) ____

d) ____

d) ____

2. Are you willing to try new production strategies?
   Yes_______ No_______

3. If yes, check which a) New crops & livestock ( )

   b) Expanded production ( )

   c) New technology ( )

   d) Other_______________ ( )

   e) Other_______________ ( )

G. Financial Problems

1. What do you see as your major financial problems?

   a) ____

   b) ____

   c) ____

   d) ____

   e) ____

2. Are you willing to try new financial strategies?
   Yes_______ No_______

3. Are you a (a) full-time or (b) part-time farmer?

4. If b, your off farm work consists of _______ hours per week (month).

5. Your off farm income consists of $________ per week (month).

H. Problem Solving

1. Are you willing to attend workshops with other farmers to try to find solutions to your specific problems? Yes_____ No_____

2. Are you willing to drive to the next county if necessary to attend these workshops? Yes_____ No_______

3. What days and times would be convenient for you to attend workshops?

   Weekdays - (M) (T) (W) (TH) (F)

   Weekends - (S) (S)

   Times: Days - (8-4) ( )
   Evenings - (4-7) ( )
   Nights - (6-10) ( )

I. **Farm Equipment Inventory & Debt**

NAME	YEAR	COST	VALUE	OWED ON IT
Total				

J. **Farm Building Inventory**

NAME	YEAR BUILT	COST	VALUE	OWED ON IT
House				
Total				

K. **Farm Land Inventory**

Land Owned		Land Rented		Cost/Acre
Crop land	________ acres	Crop land	______ acres	________
Pastures	________ acres	Pastures	______ acres	________
Forest	________ acres	Forest	______ acres	________
Ponds	________ acres	Ponds	______ acres	________
Other	________ acres	Other	______ acres	________
Estimated Value______				

L. Interviewers Observations:

INFORMATION SURVEY

INSTRUCTIONS: Please answer each question to the best of your knowledge. This information will be held in the strictest of confidence. The answer will allow us to better assist you in your farming operations. Thanks

1. Name:______________________________

2. Race: (1) _________ Black
(2) ________ White
(3) ________ Other

3. Sex: (1) ________ Male
(2) ________ Female

4. County: ___________________

5. Local Area: _________________________

6. What is your marital status?
(1) __________ Single
(2) __________ Married
(3) __________ Divorced
(4) __________ Widowed
(5) __________ Separated
(6) __________ Other

7. How old is the head of the household? No of years____________

8. What is your level of education? No of years_______________

9. How many children do you have?
No. of boys________________ Ages_____________
No. of girls________________ Ages_____________
No. of children who work______________________

10. How many people now live in the same household with you?

No. of males_______________ No of females_______________

11. How many years have you been farming?____________________

12. Are you a part-time farmer? ________Yes __________ No

13. What is the size of farm? _________Acres.

14. How many acres do you now own? _______________

15. How many acres do you rent? __________________

16. What is the division of your total acreage?

_______________ Cropland

_______________ Forest

_______________ Pasture

_______________ Homestead

_______________ Ponds

_______________ Other

17. Are you interested in increasing the size of your farm?

_____Yes

_____No

_____Not at present

18. If your answer to #17 is yes. What section would you increase? (Be specific)

____

____

____

19. Are you prepared to make changes on your farm?

____

20. Would any of these changes greatly affect you or your family's well being

________Yes

________No

21. If your response is Yes to #20 explain why.

____

____

____

____

____

22. Which of these Institutions have provided you with any type of assistance.
(check as many as applies to you)

(a) ________ Small Business Administration

(b) ________ Farm Credit Administration

(c) ________ Tuskegee University Extension Service

(d) ________ Tuskegee University Experiment Station

(e) ________ Soil Conservation Service

(f) ________ Auburn University Extension Service

(g) ________ Forestry Department

(h) ________ Any other agency

23. Specify the type of help you receive(d) from each agency.

(a) ____

(b) ____

(c) ____

(d) ____

(e) ____

(f) ____

(g) ____

(h) ____

24. To what extent do you use these agencies:

(1) FmHA
(a) seldom (b) never (c) always (d) sometimes

(2) Soil Conservation Service
(a) seldom (b) never (c) always (d) sometimes

(3) Extension Agents
(a) seldom (b) never (c) always (d) sometimes

(4) Forestry Service
(a) seldom (b) never (c) always (d) sometimes

(5) (Other)

25. Have you attended any field-day or workshop give at Tuskegee University?

______Yes

______No

26. If your answer is yes to #25 please specify what type(s) of field day/workshop.

27. Have you attended any field-day or workshop given in your community?

_____Yes

_____No

28. If your answer is yes to #27 please specify what type(s) of field-day/workshop

29. What is your spouse's non-farm income?

_______________ Weekly

_______________ Monthly

_______________ Annually

_______________ other (specify)

30. What is your non-farm income?

_______________ Weekly

_______________ Monthly

_______________ Annually

31. My spouses' role is:

________ Keeping farm record

________ Sales

________ Harvesting

________ Planting

________ Caring the livestock

_______________________ Other (specify)

____

32. Do you include your spouse in the major decision-making of the running of the farm?

___________ Seldom

___________ Never

___________ Always

___________ Sometimes

33. Do your children spend any time doing chores on the farm?

___________ Seldom

___________ Never

___________ Always

___________ Sometimes

34. Do you discuss your farm problems with your spouse?

____________ Seldom

____________ Never

____________ Always

____________ Sometimes

35. Do you want any of your children to continue this farming tradition?

______ Yes

______ No

36. Were your parents farmers?

______ Yes

______ No

37. Has any of your children expressed a desire to remain in farming?

_____ Yes

_____ No

38. If your answer to #37 is yes, what will you do to help.

____

____

____

____

39. State the number of days you work on the farm.

____

40. What do you do for recreation with your family.

(1) ____

(2) ____

(3) ____

(4) ____

41. Are you willing to work on the farm on Sunday?

_____Yes

_____No

42. What type(s) of assistance would benefit you most? (List)

(1) ________________________________

(2) ________________________________

(3) ________________________________

(4) ________________________________

THANK YOU VERY MUCH FOR YOUR ASSISTANCE IN FILLING OUT THIS SURVEY

OBSERVATIONS (Recorder)

____

____

____

____

____

____

____

____

____

____

____

____

____

____

____

____

____

Tuskegee University
Small Model Farm Workshop

DATE: ____________________ County: ____________________

Participants Name: ____

Local Address: ____
____

1. Do you consider yourself a small farmer?
   Yes__________ No__________

2. Your farm size______________ acres.

3. Land under cultivation__________ acres.

4. How many acres do you rent__________. Own____________

5. Major crops that you grow:

   1.____________________ 4.____________________

   2.____________________ 5.____________________

   3.____________________ 6.____________________

6. Livestock:

Type	Number
1.______________	______________
2.______________	______________
3.______________	______________

7. Are you a full-time__________ or part-time________ farmer?

8. Have you attended a field day (workshop) before?
   Yes______________ No______________

9. If Yes where?________________________

10. What is your major problem?

    1. Production________ 3. Other - specify__________

    2. Marketing_________ 4. All of the above__________

11. Do you intend to stay in farming?
Yes____________ No__________

12. If no why?____

____

____

13. What do you need help with?____________________________________

____

____

14. Was the workshop beneficial?
Yes____________ No________

15. How would you rate this workshop?

Poor_____ Fair______ Good______ Excellent______

16. If yes to #14, do you want to attend our next workshop?
Yes____________ No_________

APPENDIX B

Simplified Recordkeeping Guide

INCOME - 19

Date	Items Sold	Amount	
	Quarterly Income		
	Quarterly Expense		
	Quarterly Net Income		
	Quarterly Income		
	Quarterly Expense		
	Quarterly Net Income		
	Quarterly Income		
	Quarterly Expense		
	Quarterly Net Income		
	Quarterly Income		
	Quarterly Expense		
	Quarterly Net Income		

EXPENDITURES ENDED 19

	Account	Quarters				Year
Acct No.	Deductable	1	2	3	4	
1	Bldg Rep					
2	Machi. Reps.					
3	Auto Repair					
4	Machine Hire					
5	Fuel & Oil					
6	Herbicides					
7	Insecticides					
8	Hay					
9	Supplement					
10	Med/Vet					
11	Insurance					
12	Interest					
13	Tax					
14	Utilities					
15	Traveling Exp.					
16	Wages					
17	Mis. Exp.					
18						
19						
20						
21						
22						
23						
24						
25						

CAPITAL EXPENDITURES QUARTERLY/YEARLY

		Quarters				Year
	Deductable	1	2	3	4	
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40						
41						
42						
43						
44						
45						
46						
47						
48						
49						
50						
51						
52						
53						
	TOTAL					

DETAIL OF EXPENDITURE

CASH AND CHECK						EXPENDITURE BY CHECKS AND CASH				
TO WHOM PAID	CHECK No.	ACCT. No.	AMOUNT			TO WHOM PAID	CHECK No.	ACCT No.	AMOUNT	

APPENDIX C

I. Miscellaneous Facts

II. Livestock Information

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GEORGE WASHINGTON CARVER AGRICULTURAL EXPERIMENT STATION FACTS
Published By Tuskegee University

Errol G. Rhoden
Coordinator, Small Farm Project

Conrad K. Bonsi
Plant Pathologist, Small Farm Project

James R. Allen
Professor, Agricultural Sciences

UNITS OF LENGTH

English Measure

1 mil = 0.001 inch
1 hand = 4 inches
1 link = 7.92 inches
1 span = 9 inches
1 ft = 12 inches
1 yard = 3 feet
1 fathom = 2 yards = 6 feet
1 rod = 16.5 ft = 5.5 yards
1 chain = 66 feet = 4 rods
1 chain = 100 links
1 furlong = 10 chain
1 mile = 8 furlongs
1 mile = 1,760 yds = 5,280 ft.
1 mile = 320 rods = 80 chains

Metric Measure

1 millimeter = 1,000 microns
1 centimeter = 10 millimeters
1 meter = 100 centimeters
= 1,000 millimeters
1 meter = 1,000,000 microns
1 kilometer = 1,000 meters

English to Metric Conversions

1 inch = 25.4 millimeters
1 inch = 25,400 microns
1 inch = 2.54 centimeters
1 foot = 0.3048 meter
1 yard = 0.9144 meters
1 mile = 1.609 kilometers

Metric to English Conversions

1 micron = 0.00003937 inch
1 millimeter = 0.03937 inch
1 centimeter = 0.3937 inch
1 meter = 39.37 inches
1 meter = 3.2808 ft.
= 1.0936 yds
1 kilometer = 0.6214 mile

UNITS OF AREA

English Measure

1 square foot = 144 square inches
1 square yard = 9 square feet
1 square yard = 1296 square inches
1 square rod = 272.25 square feet
1 acre = 43,560 square feet
1 acre = 4,840 square yards
1 acre = 160 square rods
1 acre = a square, the side
= 208.71 ft.

Metric Measure

1 sq. centimeter = 100sq. millimeter
1 sq. meter = 10,000 sq. centimeters
1 sq. meter = 1,000,000 sq. millimeters
1 are = 100 sq. meters
1 hectare = 100 ares
= 10,000 sq. meters
1 sq. kilometer = 100 hectares

English to Metric Conversions

1 sq. inch = 645.2 sq. millimeters
1 sq. inch = 6.452 sq. centimeters
1 sq. ft. = 929 sq. centimeters
1 sq. ft. = 0.0929 sq. meter
1 sq. yd. = 0.836 sq. meter
1 acre = 0.4047 hectare
1 sq. mile = 2.5899 sq. kilometers

Metric to English Conversions

1 sq. millimeter = 0.001 sq. inch
1 sq. centimeter = 0.155 sq. inch
1 sq. centimeter = 0.001076 sq. foot
1 sq. meter = 10.764 sq. feet
1 sq. meter = 1.196 sq. yards
1 hectare = 2.471 acres
1 sq. kilometer = 0.3861 sq. mile

UNITS OF WEIGHT

English Measure
(Commercial Weight)

1 ounce = 16 drachms
1 ounce = 437.5 grains
1 pound = 16 ounces
1 pound = 7,000 grains
1 short ton = 2,000 pounds
1 gross or long ton = 2,240 pounds

Metric Measure

1 gram = 1,000 milligrams
1 kilogram = 1,000 grams
1 metric ton = 1,000 kilograms

English to Metric Conversions

1 grain = 0.0648 gram
1 ounce = 28.35 grams
1 pound = 453.6 grams
1 pound = 0.4536 kilogram

Metric to English Conversions

1 gram = 15.432 grains
1 gram = 0.03527 ounce
1 gram = 0.0022046 pound
1 kilogram = 2.2046 pounds

UNITS OF VOLUME

English Measure

Cubic
1 cubic foot = 1,728 cubic inches
1 cubic yard = 27 cubic feet
1 cord = 128 cubic feet

Metric Measure

1 cubic centimeter = 1,000 sq. millimeters
1 cubic meter = 1,000 cubic centimeters

English Measure

Dry
1 teaspoon = 1/6 fluid ounce
1 tablespoon = 3 tsp. = 1 ounce
1 cup = 16 tablespoons
1 cup = 8 fluid ounces
1 pint = 2 cups
1 quart - 2 pints
1 quart = 32 fluid ounces
1 gallon = 4 quarts
1 gallon = 128 fluid ounces
1 gallon = 0.1337 cubic foot
1 peck = 2 gallons
1 bushel = 4 pecks
1 bushel = 1.2445 cubic feet
1 bushel = 2,150.42 cubic inche
1 cubic foot = 7.48 gallons
1 gallon = 231 cubic inches

Metric Measure

1 centiliter = 10 milliliters
1 liter = 1,000 milliliters
1 liter = 1 kilogram of water at 39.2°F

English to Metric Conversions

1 cubic inch = 16.3872 cubic centimeters
1 cubic foot = 28.317 liters
1 cubic foot = 28,317 cubic centimeters
1 cubic yard = 0.7646 cubic meter

Metric to English Conversions

1 cubic centimeter = 0.061 cubic inch
1 liter = 0.0353 cubic foot
1 liter = 0.0013 cubic yard
1 liter = 61.072 cubic inches
1 cubic meter = 1.308 cubic yards
1 cubic meter = 35.314 cubic feet

Weight of Agricultural Products

	Lbs. Per Cu. Ft.	Lbs. Per Bu
Alfalfa meal	20	25
Alfalfa seed	48	60
Barley	38	48
Beans (dry)	48	60
Beans (snap)	24	30
Clover (seeds)	48	60
Corn, ear (husked)	28	70
Corn meal	40	50
Corn shelled	45	56
Cowpeas	48	60
Grain sorghums	45	56
Hay (baled)	15	19
Millet	40	50
Oats	26	32
Oats (ground)	18	22
Onions (dry)	43	54
Peas (dry)	48	60
Potatoes	48	60
Rice (rough)	36	45
Rice (bran)	21	26
Rye	45	56
Silage	40	50
Soybeans	48	60
Sudan grass (seed)	32	40
Sweet potatoes	44	55
Vetchs	48	60
Wheat	48	60
Wheat (bran)	15	19

Temperature Conversion

$°F = (°C \times 1.8) + 32$

$°C = (°F - 32) \div 1.8 = \frac{(°F - 32)}{1.8}$

Force and Power Conversions

1 pound (force = 4.488 newtons
1 newton = 0.2248 pound (force)
1 horsepower = 0.7457 kilowatt
1 kilowatt = 1.341 horsepower

	Wind-chill index for thermometer reading of -									
Wind Velocity	50°F	40°F	30°F	20°F	10°F	0°F	-10°F	-20°F	-30°F	-40°F
Calm	50	40	30	20	10	0	-10	-20	-30	-40
5 mph	48	37	27	16	7	-6	-15	-26	-35	-47
10 mph	40	28	16	2	-9	-22	-31	-45	-58	-70
15 mph	36	22	11	-6	-18	-33	-45	-60	-70	-85
20 mph	32	18	3	-9	-24	-40	-52	-68	-81	-96
25 mph	30	16	0	-15	-29	-45	-58	-75	-89	-104
30 mph	28	13	-2	-18	-33	-49	-63	-78	-94	-109
35 mph	27	11	-4	-20	-35	-52	-67	-83	-98	-113
40 mph	26	10	-6	-22	-38	-54	-69	-87	-101	-116

Seeds or Plants Per Acre, Thousands

Row spacing/inches	Seed or Plant Spacing (Inches) 1	2	4	6	8	10	12	14	16	18	20
20	313.63	156.82	78.41	52.27	39.20	31.36	26.14	22.40	19.60	17.42	15.68
22	285.12	142.56	71.28	47.52	35.64	28.51	23.76	20.37	17.82	15.84	14.26
24	261.36	130.68	65.34	43.56	32 67	26.14	21.78	18.67	16.34	14.52	13.07
26	241.26	120.63	60.31	40.21	30.16	24.13	20.10	17.23	15.08	13.40	12.06
28	224.02	112.01	56.01	37.34	28.00	22.40	18.67	16.00	14.00	12.45	11.20
30	209.09	104.54	52.27	34.85	26.14	20.91	17.42	14.94	13.07	11.62	10.45
32	196.02	98.01	49.01	32.67	24.50	19.60	16.34	14.00	12.25	10.89	9.80
34	184.49	92.34	46.12	30.75	23.06	18.45	15.37	13.18	11.53	10.25	9.22
36	174.24	87.12	43.56	29.04	21.78	17.42	14.52	12.45	10.89	9.68	8.71
38	165.07	82.53	41.27	27.51	20.63	16.51	13.76	11.79	10.32	9.17	8.25
40	156.82	78.41	39.20	26.14	19.60	15.68	13.07	11.20	9.80	8.71	7.84
42	149.35	74.67	37.34	24.89	18.67	14.94	12.45	10.67	9.33	8.30	7.47

Acreage Chart for Various Row Length

Row Length (Feet)	Width to Equal One Acre (Feet)	Number of Rows to Equal One Acre Row Width (Inches) 20	24	28	36	38	40
300	145.20	87.12	72.60	62.23	48.40	45.85	43.56
400	108.90	65.34	54.45	46.67	36.30	34.39	32.67
500	87.12	52.27	43.56	37.34	29.04	27.51	26.14
600	72.60	43.56	36.30	31.11	24.20	22.93	21.78
700	62.23	37.34	31.11	26.68	20.7	19.65	18.67
800	54.45	32.67	37.23	23.34	18.15	17.19	16.34
900	48.40	29.04	24.20	20.74	16.13	15.28	14.52
1000	43.56	26.14	21.78	18.67	14.52	13.76	13.07
1100	39.60	23.76	19.80	16.97	13.20	12.51	11.88
1200	36.30	21.78	18.15	15.56	12.10	11.46	10.89
1300	33.51	20.11	16.75	14.36	11.17	10.58	10.05
1400	31.11	18.67	15.56	13.33	10.37	9.83	9.33
1500	29.04	17.42	14.52	12.45	9.68	9.17	8.71
1600	27.23	16.34	13.61	11.67	9.08	8.60	8.17

Acreage Chart for Various Implement Widths

Row Length (Feet)	Number of Trips to Equal One Acre Implement width (Feet) 4	5	6	8	10	12	14	16
300	36.30	29.04	24.20	18.15	14.52	12.10	10.37	9.08
400	27.23	21.78	18.15	13.61	10.89	9.08	7.78	6.81
500	21.78	17.42	14.52	10.89	8.71	7.26	6.22	5.45
600	18.15	14.52	12.10	9.08	7.26	6.05	5.19	4.54
700	15.56	12.45	10.37	7.78	6.22	5.19	4.44	3.89
800	13.61	10.89	9.08	6.81	5.45	4.54	3.89	3.40
900	12.10	9.68	8.07	6.05	4.84	4.03	3.46	3.03
1000	10.89	8.71	7.26	5.45	4.36	3.63	3.11	2.72
1100	9.90	7.92	6.60	4.95	3.96	3.30	2.83	2.48
1200	9.08	7.26	6.05	4.54	3.63	3.03	2.59	2.27
1300	8.38	6.70	5.58	4.19	3.35	2.79	2.39	2.09
1400	7.78	6.22	5.19	3.89	3.11	2.59	2.22	1.94
1500	7.26	5.81	4.84	3.63	2.90	2.42	2.07	1.82
1600	6.81	5.45	4.54	3.40	2.72	2.27	1.94	1.70

GEORGE WASHINGTON CARVER AGRICULTURAL EXPERIMENT STATION

LIVESTOCK INFORMATION

Errol G. Rhoden, Coordinator
Small Farm Project

Abraham Woldeghebriel
Livestock Nutrition Specialist

Daily Water Requirements of Mature Farm Livestock*

Swine	1-2 gallons
Sheep	1-2 gallons
Beef Cattle . . .	8-12 gallons
Dairy Cows	8-12 gallons
Horses	10-12 gallons
Dairy cows, in milk	35-40 gallons

*The ideal practice is to have unlimited amount of water available at all times.

Table of Body Temperatures of Farm Animals

Average Normal Rectal Temp.	Range ± 1°F
Goat	104
Sheep	103
Pig	102
Cow	101.5
Horse	100.5

AVERAGE GESTATION PERIODS

Animal	Days	Range (days)		
Sows	114	110	to	120
Ewes	147	142	to	157
Goats	150	150	to	160
Cows	283	240	to	311
Mares	340	307	to	412

NORMAL DURATION AND FREQUENCY OF HEAT

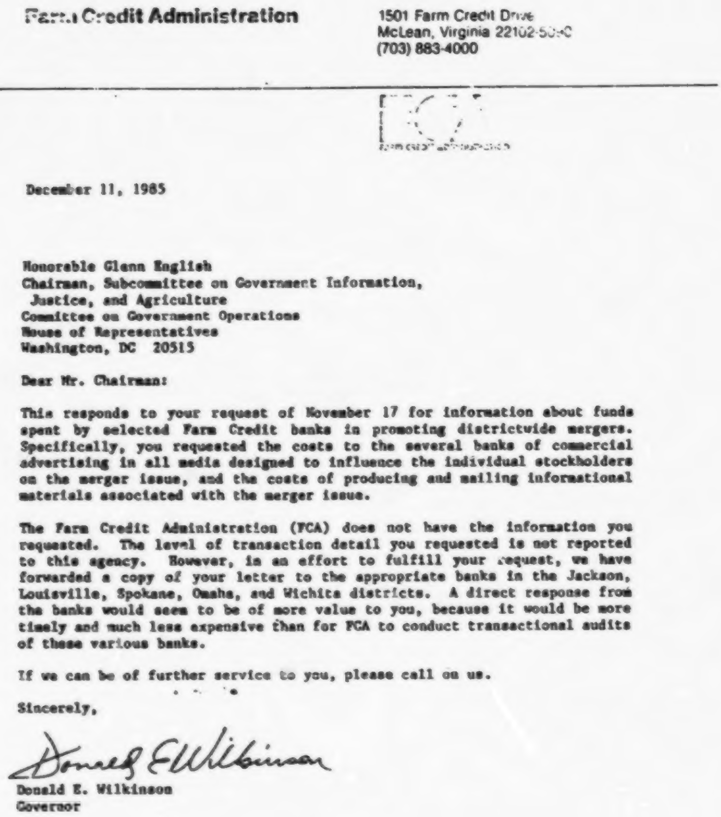
Animal	In heat for	Normal Recurrence
Cows	12 - 16 hours	19 - 24 days
Ewes	1 - 3 days	15 - 21 days
Sows	1 - 3 days	21 days
Mares	5 - 7 days	About 3 weeks

GESTATION TABLE

Date Bred*	Date Due			
	Mare	Cow	Ewe	Sow
Jan 1	Dec 7	Oct 11	May 28	Apr 25
Feb 1	Jan 7	Nov 11	Jun 28	May 26
Mar 1	Feb 4	Dec 09	Jul 26	Jun 23
Apr 1	Mar 7	Jan 09	Aug 26	Jul 24
May 1	Apr 6	Feb 08	Sep 25	Aug 23
Jun 1	May 7	Mar 13	Oct 26	Sep 23
Jul 1	Jun 6	Apr 09	Nov 25	Oct 23
Aug 1	Jul 7	May 07	Dec 26	Nov 23
Sep 1	Aug 7	Jun 11	Jan 26	Dec 24
Oct 1	Sep 6	Jul 11	Feb 25	Jan 23
Nov 1	Oct 7	Aug 11	Mar 28	Feb 23
Dec 1	Nov 6	Sep 10	Apr 27	Mar 25

*Animal bred after the first day of a month, add the number of days after the first of the month to the date in the appropriate Date Due column.

APPENDIX 4.—INFORMATION REQUESTED BY THE SUBCOMMITTEE ON PROMOTION COSTS OF DISTRICTWIDE MERGERS



Farm Credit Administration

1501 Farm Credit Drive
McLean, Virginia 22102-5090
(703) 883-4000

December 11, 1985

Honorable Glenn English
Chairman, Subcommittee on Government Information,
Justice, and Agriculture
Committee on Government Operations
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

This responds to your request of November 17 for information about funds spent by selected Farm Credit banks in promoting districtwide mergers. Specifically, you requested the costs to the several banks of commercial advertising in all media designed to influence the individual stockholders on the merger issue, and the costs of producing and mailing informational materials associated with the merger issue.

The Farm Credit Administration (FCA) does not have the information you requested. The level of transaction detail you requested is not reported to this agency. However, in an effort to fulfill your request, we have forwarded a copy of your letter to the appropriate banks in the Jackson, Louisville, Spokane, Omaha, and Wichita districts. A direct response from the banks would seem to be of more value to you, because it would be more timely and much less expensive than for FCA to conduct transactional audits of these various banks.

If we can be of further service to you, please call on us.

Sincerely,

Donald E. Wilkinson

Donald E. Wilkinson
Governor

Federal Intermediate Credit Bank
of Jackson

Post Office Box 16827
Jackson, Mississippi 39236-6827
601/957-4000

December 17, 1985

Honorable Glenn English
Chairman, Subcommittee on Government Information,
 Justice, and Agriculture
Committee on Government Operations
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

In response to your request on November 27, 1985 for information from the Governor of the Farm Credit Administration, I am furnishing you with the following information concerning publicity surrounding the merger of 16 Production Credit Associations in the Jackson District.

Beginning in April of 1984, the chairmen of the various PCA boards within our district began deliberations concerning a possible realignment of association territories. During the ensuing 12 months, these board members struggled with the various issues surrounding the question of realignment. Finally, in May, 1985, a task force of PCA directors, selected by the various association boards in the Jackson District, voiced their support of a merger of their 16 respective associations into one PCA. This task force recommended to their respective boards to ratify this proposal and to seek approval from their stockholders.

During the month of June, 1985, these 16 boards each went on record in support of the proposed merger. And at the end of June, the FICB management, at the request of these 16 boards, sent a disclosure package and announcement of a special meeting to all of the stockholders of the merging associations.

On July 29 and 30, the PCA stockholders voted overwhelmingly (92 percent of those voting) in favor of the merger. This merger, which resulted in the formation of First South Production Credit Association, went into effect officially on September 1 of this year.

The FICB management's role during this process was to respond to PCA board members' requests for information and support. At no time prior to the stockholder votes on July 29 and 30 did the FICB management attempt to persuade association stockholders to vote in favor of the merger. Furthermore, no news story or advertisement of any form (related to the proposed merger) appeared prior to the stockholder vote.

Part of the Farm Credit System

The FICB of Jackson did not spend any money to attempt to persuade PCA stockholders. In fact, Mr. Bob Carson, board chairman for First South PCA, recently testified before House and Senate agriculture committees, stating that PCA stockholders now have greater control than ever before. He pointed out that their board members now control the operations of the entire district, and not just their small regions, as in the past.

The only funds spent by the FICB or the merging PCAs were spent in support of preparing and mailing the disclosure package and special meeting announcement.

I will be happy to furnish any additional information you may need concerning this matter.

Sincerely,

Paul K Parisi

Paul K. Parisi
Assistant Vice President

Federal Land Bank
of Jackson

1800 East County Line Road, P. O. Box 16669
Jackson, Mississippi 39236-0669
601/957-4000

December 18, 1985

Honorable Glenn English
Chairman, Subcommittee on Government
Information, Justice and Agriculture
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Congressman English:

We are responding to your request of the Farm Credit Administration to provide you with information on funds spent in promoting district-wide mergers.

The Federal Land Bank/Federal Land Bank Associations in the Jackson District are in a study mode concerning district-wide Association mergers. We have spent no funds on commercial advertising and do not intend to do so, even if the 32 Federal Land Bank Associations vote to consolidate into one Federal Land Bank Association.

At this point, we do not know the cost of producing and mailing disclosure information to the Federal Land Bank Association stockholders. We intend to mail only that material required by the Farm Credit Administration and financial information as required by Generally Accepted Accounting Principles.

Contrary to some Districts, our consolidation considerations are being nurtured by the Federal Land Bank Associations as opposed to the Bank, i.e., bottom up rather than top down.

If you would like additional information, please contact us.

Sincerely,

G. R. Cotner

George R. Cotner
Senior Vice President

GRC/dcj

Part of the Farm Credit System

**Farm Credit Banks
of Wichita**

245 North Waco P.O. Box 2940
Wichita, Kansas 67201-2940
316/266-5100

January 7, 1986

The Honorable Glenn English
Chairman, Subcommittee on Government Information,
Justice, and Agriculture
Committee on Government Operations
House of Representatives
Washington, DC 20515

390

Dear Congressman English:

Farm Credit Administration Governor Donald E. Wilkinson has informed us of your request for information about funds spent by the Farm Credit Banks of Wichita in promoting the proposal to consolidate Federal Land Bank Associations and Production Credit Associations into a districtwide FLBA and PCA.

The amounts spent by the Farm Credit Banks of Wichita on FLBA/PCA stockholder information items including production and distribution of the required financial disclosure packets, estimated return postage costs on borrower inquiry cards and all paid advertising is approximately $400,000. Paid advertising represents less than one-half of that total.

The decision to use paid advertising in this manner traces back to a workgroup dealing with image and information management which was formed last June when the consolidation proposal was first announced. This group, composed of association directors and presidents, reviewed all advertising the banks were using at that time. The group recommended dropping virtually all image oriented or lending promotion type advertising and replacing it with informational and promotional ads about the consolidation. Based on the group's suggestions, we immediately dropped all remaining advertising, reduced the balance of our budget by 25 percent, and reallocated most of the remainder to advertisements explaining and promoting the consolidation proposal.

Part of the Farm Credit System

Your November 27 letter to Governor Wilkinson also inquired about the cost of a November meeting of association officials in Wichita. In late November, a meeting was held of the fifteen individuals elected as Farm Credit Center CEOs under the proposed consolidated structure. The purpose of this meeting was to deal with organizational issues, not the promotion of the consolidation. The approximate cost of the meeting was $4,600. In addition, an informational meeting was held October 10 to which all FLBA and PCA presidents and chairmen were invited. This meeting was also held in Wichita at an approximate cost of $12,500. We believe these costs are far outweighed by the $17 million in savings anticipated from a full consolidation and other cost cutting measures.

I trust this information will be useful to you and that you will contact us again if we can provide additional assistance.

Sincerely,

Monte Reese

Monte Reese
Vice President - Public Affairs

/kb

APPENDIX 5.—LETTER TO CHAIRMAN GLENN ENGLISH FROM C.W.S. HORNE, LEXINGTON, SOUTH CAROLINA, DATED NOVEMBER 29, 1985

November 29, 1985

The Honorable Glenn English
Chairman, Government Operations Subcommittee
2235 Rayburn House Office Building
Washington, DC 20515

Dear Mr. English

Re: The Farm Credit Crisis

I watched with great interest, via television, your subcommittee's November 15, 1985 hearing on the farm credit crisis. While searching questions were asked of those testifying, I suggest also some direct inquiry into the costs of operating the Farm Credit Administration (FCA), and to what extent the agency has added to the operational costs of the farm credit district banks in the years 1984-85.

My resignation as president of The Federal Land Bank of Columbia and of the Federal Intermediate Credit Bank of Columbia was requested by the Columbia district board July 15, 1985, as a direct consequence of Farm Credit Administration harassment and intimidating tactics. The district board, which had recommended a pay increase for me in January 1985 (refused by FCA Governor Wilkinson) concluded a change of bank management was necessary to improve relations with the agency. My fall from grace was due to vocal criticism of the agency's dramatic increase in documentation and reporting requirements which substantially increased operational costs at the bank and at the association levels. A small cadre of personnel at the Farm Credit Administration concluded I had to go, and eventually succeeded in wearing down the district board to achieve their objective.

There is documentation in the files of the Columbia Federal Land Bank and Federal Intermediate Credit Bank that the "extra" documentation and reporting requirements of the Farm Credit Administration, during August through November 1984 required in excess of 4800 man hours, which translated into more than $100,000. Of course this was not reflected in FCA's budget, but rather bank costs which were ultimately paid by the farmer.

The Farm Credit Administration has in my opinion been extremely inept during this agricultural stress period, adding substantially to costs of all institutions of the Farm Credit System, and requiring these institutions to devote a healthy share of available resources (personnel and money) to satisfy FCA as opposed to serving the farmer.

On the technical side, either you or Congressman Craig referred to the 1971 rewrite of the Farm Credit System Charter Act as raising the land bank loan limit from 65% to 85% of the land's appraisal figure. While true, a more substantive change resulted from the 85% limit being applied to currently appraised value, while the earlier 65% was keyed to "normal agricultural value." It was this distinction, in my judgment, which contributed materially to the rapid escalation of agricultural land values during the latter 70's.

I enclose as additional information pertinent information on personnel costs and practices of the FCA, whose budget is assessed among the farm credit banks. While I cannot personally verify each statement therein (others participated in developing the data), I believe it to be accurate and certainly a legitimate area of inquiry by the subcommittee, if desired.

With reference to broader powers of the Governor, I seriously question whether any additional powers should be granted FCA, in light of the agency's failure to do anything constructive to guide the cooperative Farm Credit System during and prior to this period of extreme stress. A better remedy would be less bureaucracy and a real return to grass roots control of the cooperative Farm Credit System.

Yours very truly,

C. W. S. Horne
261 Glenkirk Lane
Lexington, SC 29072

Enc.

cc: The Honorable Larry Craig
The Honorable John Spratt

The Farm Credit Administration (FCA), the regulatory Agency for the Farm Credit System, approved the pay scales in each of the farm credit banks and individual salaries of the chief executive officer(s). The FCA, unilaterally, has perpetuated its own practice of granting inordinately "large pay hikes" to many of its staff members, even though they are subject to Civil Service restrictions. Examples of the FCA's liberal policy toward selected employees are presented below. For clarity and brevity, data are rounded and sometimes closely approximated.

> FCA, with 300 employees, had 28 employees receiving pay in excess of $60,000 at April 30, 1985, an increase of 13 from one year earlier.
>
> Several FCA employees have received pay increases ranging in the area of 100% in the last five years.
>
> FCA's Office of Examination/Supervision (OES), with 175 of the Agency's 300 employees at April 30, 1985, had 100 persons with ratings of GS-13 and above. (57% compared to 15% for government wide service excluding postal workers, as of October 31, 1983.)
>
> Of OES's 100 employees GS-13 and above, seven received salary increases exceeding 20% during the year ended April 30, 1985, and 18 received increases of more than 15% during the same period.
>
> Forty of the above mentioned 100 received pay increases in excess of 10% during the year ended April 30, 1985, with an average increase of 16%.
>
> The average increase was 10% for the 100 during the year ended April 30, 1985, with only 10 limited to the federally approved 4% for government workers during fiscal year 1985.
>
> FCA had 16 persons in the Senior Executive Service category (SES) at April 30, 1985, or more than 5% of total staff of 300 compared to much less than 1% on a government wide basis at October 31, 1983.
>
> The above data do not include cash awards granted at 1984 year end incentive program to a large number of employees and on a more selective basis, special achievement awards during the year.

The FCA's expenses are not funded by the Federal Government. FCA's budget is assessed to the banks in the Farm Credit System, with the total cost ultimately passed on to the farmer.

It is the responsibility of the Office of Personnel Management to determine that the FCA abides by the federally mandated restrictions on employment, compensation, and other personnel practices. The FCA has apparently been able to effectively circumvent prescribed practices with impunity, due to a series of reorganizations and establishment of new positions. For example, a major reorganization transpired in mid-1984 through the closing of a field office (Columbia, S. C.) and the consolidation of the then separate offices of bank supervision and of examination. Many new positions at a high level were created, with expenses, including employee compensation, moving, and office facilities being substantially increased.

In spite of this major reorganization, approved in April 1984, and essentially completed by early July 1984, no reference to the reorganization, creation of new positions, or the closing of the Columbia office can yet be found in the Federal Register. Moreover, 12 CFR Ch. VI dated January 1, 1985 reports that the FCA organization continues to exist as it did a year earlier, including the Columbia office, on which FCA still reportedly pays rent even though it was closed in June 1984, soon after being renovated and enlarged by FCA.